

## **Bluedrop Performance Learning Inc.**

Condensed Consolidated Interim Financial Statements

**Three months ended December 31, 2014**

### **Notice of No Auditor Review of Interim Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of Bluedrop Performance Learning Inc. (the Company) have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, the Company discloses that its independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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**Bluedrop Performance Learning Inc.**

Consolidated Statements of Financial Position

Unaudited

**December 31****2014****September 30**

In Canadian dollars

**ASSETS**

## Current assets

Cash and cash equivalents	\$	11,463	4,055
Accounts receivable (Note 4)		6,112,751	6,994,565
Work in progress		540,832	971,338
Prepaid expenses		466,060	488,220
Due from related parties (Note 5)		50,227	51,818
		7,181,333	8,509,996
Due from related parties (Note 5)		119,589	119,589
Deferred tax assets		4,702,005	4,855,470
Goodwill and other intangible assets (Note 6)		5,251,852	5,284,924
Property and equipment (Note 7)		867,782	915,867
	\$	18,122,561	19,685,846

**LIABILITIES AND EQUITY**

## Current liabilities

Bank indebtedness (Note 8)	\$	1,509,247	1,071,655
Accounts payable and accruals		2,302,140	2,791,522
Deferred revenue		2,738,037	2,855,758
Due to related parties (Note 5)		14,638	-
Current portion of obligations under finance leases		39,369	49,727
Current portion of long term debt (Note 9)		903,655	2,406,673
		7,507,086	9,175,335
Obligations under finance leases		32,223	42,219
Long term debt (Note 9)		6,048,220	6,091,860
Provisions (Note 10)		1,223,327	1,188,864
Deferred revenue		2,498,764	2,501,761
Deferred tax liabilities		623,791	641,118
Long term payables		-	28,167
		17,933,411	19,669,324
Equity			
Share capital (Note 11)		5,053,021	5,053,021
Reserves		1,392,773	1,322,350
Deficit		(6,256,644)	(6,358,849)
		189,150	16,522
	\$	18,122,561	19,685,846

Approved on Behalf of the Board

Derrick H. Rowe  
DirectorEmad Rizkalla  
Director

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**Bluedrop Performance Learning Inc.**

Consolidated Statements of Comprehensive Income (Loss)

Unaudited

**Three months ended December 31****2014****2013**In Canadian dollars

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**Revenue**

Services revenue	\$	3,372,981	1,578,971
Product sales		976,365	458,227
		4,349,346	2,037,198
Direct costs		2,715,348	1,285,794
<b>Gross profit</b>		<b>1,633,998</b>	<b>751,404</b>

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**Expenses**

Sales and marketing		426,054	743,671
General and administration		936,023	944,969
Acquisition and restructuring costs		-	1,666,406
Government assistance (Note 12)		(196,915)	(228,579)
Share-based compensation (Note 11)		70,423	73,098
Finance costs (Note 13)		410,541	117,842
Depreciation and amortization		221,451	176,681
Other gains and losses		(471,922)	5,913
		1,395,655	3,500,001
<b>Profit (Loss) before income taxes</b>		<b>238,343</b>	<b>(2,748,597)</b>

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Income tax expense (recovery)

Deferred		136,138	(668,147)
		136,138	(668,147)

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**Net profit (loss) and comprehensive loss** \$ 102,205 (2,080,450)

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**Net profit (loss) per share**

Basic		0.0010	(0.0210)
Diluted		0.0010	(0.0210)

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**Weighted average number of shares outstanding**

Basic		98,986,609	98,986,609
Diluted		98,986,609	98,986,609

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**Bluedrop Performance Learning Inc.**

Consolidated Statements of Changes in Equity

Unaudited

**Three months ended December 31**In Canadian dollars

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	<b>Ordinary Common Shares</b>	<b>Share Capital</b>	<b>Share Option Reserve</b>	<b>Convertible Notes</b>	<b>Retained Earnings (Deficit)</b>	<b>Total</b>
<b>October 1, 2013</b>	98,986,609	\$ 5,053,021	899,856	-	(2,438,867)	3,514,010
Share-based compensation	-	-	73,098	-	-	73,098
Issue of convertible note, net of tax	-	-	-	201,466	-	201,466
Loss and comprehensive loss	-	-	-	-	(2,080,450)	(2,080,450)
<b>December 31, 2013</b>	98,986,609	\$ 5,053,021	972,954	201,466	(4,519,317)	1,708,124
Share-based compensation	-	-	147,930	-	-	147,930
Loss and comprehensive loss	-	-	-	-	(1,839,532)	(1,839,532)
<b>September 30, 2014</b>	98,986,609	\$ 5,053,021	1,120,884	201,466	(6,358,849)	16,522
Share-based compensation	-	-	70,423	-	-	70,423
Loss and comprehensive loss	-	-	-	-	102,205	102,205
<b>December 31, 2014</b>	98,986,609	\$ 5,053,021	1,191,307	201,466	(6,256,644)	189,150

## Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Three months ended December 31

2014

2013

In Canadian dollars

### Increase (decrease) in cash and cash equivalents

#### Operating activities

Net profit (loss) for the period	\$	102,205	(2,080,450)
Items not affecting cash:			
Share-based compensation		70,423	73,098
Depreciation and amortization		221,451	176,681
Additions and revaluation of provision		2,856	11,417
Gain on settlement of LTD		(470,422)	-
Finance costs		410,541	117,842
Deferred taxes		136,138	(668,147)
Loss on disposal of property and equipment		-	5,913
Interest paid		(11,562)	(4,779)
		461,630	(2,368,425)
Changes in non-cash working capital (Note 14)		846,084	1,483,588
		1,307,714	(884,837)

#### Investing activities

Change in related party balances		16,229	(61,824)
Net cash flow on business combinations (Note 3)		-	(910,449)
Proceeds on disposal of property and equipment		-	6,000
Purchase of property and equipment, net of government assistance		(19,485)	(7,819)
Purchase of intangible assets, net of government assistance		(119,251)	(62,034)
		(122,507)	(1,036,126)
Changes in non-cash working capital (Note 14)		(121,704)	47,158
		(244,211)	(988,968)

#### Financing activities

Repayment of obligations under finance leases		(20,354)	(26,193)
Advances of long term debt		-	3,000,000
Repayment of long term debt		(1,296,025)	(1,147,381)
Repayment of royalties		(20,478)	(20,576)
Change in long term payables		(28,167)	128,533
Interest paid		(128,663)	(19,989)
		(1,493,687)	1,914,394

#### (Decrease) increase in cash and cash equivalents

		(430,184)	40,589
(Bank indebtedness) cash and cash equivalents, beginning of period		(1,067,600)	229,813
<b>(Bank indebtedness) cash and cash equivalents, end of period</b>	\$	<b>(1,497,784)</b>	<b>270,402</b>

#### (Bank indebtedness) cash and cash equivalents consists of:

Cash on hand and in bank	\$	11,463	270,402
Bank indebtedness		(1,509,247)	-
	\$	(1,497,784)	270,402

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## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2014

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In Canadian dollars

### 1. Nature of operations

Bluedrop Performance Learning Inc. (formerly Serebra Learning Corporation) (the Company) was continued under the Corporations Act of Newfoundland and Labrador on January 26, 2012.

On January 26, 2012 the Company completed a business combination with Blue Drop Inc. (Blue Drop) which constituted a reverse takeover of the Company by Blue Drop. Because Blue Drop is considered to be the acquirer for purposes of recording the business combination, these financial statements are a continuation of the financial statements of Blue Drop, adjusted to reflect the legal capital of the Company. On January 27, 2012 the Company commenced trading on the TSX Venture Exchange under the symbol BPL.

The Company provides e-learning and course development services and offers online training solutions for businesses and individuals through a cloud-based learning management solution and traditional learning management systems. In addition, the Company provides custom courseware development, training products, low cost simulation and resource augmentation solutions to improve the safety, productivity and efficiency of military and civil aviation personnel through its defence and aerospace operations. The Company is domiciled in Canada and its registered office is located at 18 Prescott Street, St. John's, Newfoundland and Labrador, A1C 3S4.

These financial statements were approved and authorized for issuance by the Board of Directors on March 2, 2015.

### 2. Basis of presentation

These condensed consolidated interim financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) and in accordance with International Accounting Standard (IAS) 34 Consolidated Interim Financial Reporting using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board (IASB). These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the preparation of the Company's audited annual financial statements for the year ended September 30, 2014. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended September 30, 2014.

These financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities, which are measured at their fair value, and are presented in Canadian dollars.

The accounting policies have been applied consistently in the preparation of the financial statements of all periods presented.

#### (a) Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

As at December 31, 2014 the Company had a negative working capital position of \$325,753 including \$1,509,247 of bank indebtedness. These conditions create a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern.

The bank indebtedness is primarily the result of a repayment of \$1,125,000 of term debt under an early discounted settlement agreement that occurred on December 30, 2014. The repayment was funded using the existing line of credit facility. In February 2015 the company refinanced the debt using an unsecured convertible term note and an unsecured term loan of \$625,000 and \$600,000 respectively (see note 18).

Management believes that it will have sufficient cash flow to meet its operating expenses, realize its assets and discharge its liabilities in the next twelve months. However, funding from new equity or additional term debt may be required to fund ongoing development of the Company's technology assets and undertake business development activities and to discharge existing obligations. Raising additional funding on a timely basis may be adversely impacted by uncertain market conditions and the availability of appropriate financing opportunities. The outcome of these initiatives cannot be predicted at this time.

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## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2014

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In Canadian dollars

### 3. Business combinations

On December 31, 2013 the Company, under a Plan of Arrangement, acquired all the issued and outstanding common shares of Atlantis Systems Corp. (Atlantis), a publically traded company listed on the TSX Venture - NEX Exchange. Atlantis is a custom courseware developer and provider of training and simulation products to the defence and aerospace industry. The business combination allows the Company to facilitate continued growth in training and simulation operations in domestic markets and provides a foundation for future growth into international markets.

The cash consideration transferred in the Plan of Arrangement was \$1,000,000. The long term debt agreements of Atlantis were renegotiated concurrent with the acquisition. The Company assumed \$2,500,000 of long term debt, \$1,000,000 of which was repaid immediately following the acquisition. The remaining principal and accrued interest was repayable on or before June 30, 2015. The term loan bears interest at 8% per annum. The debenture is convertible at a conversion price of \$0.15 per common share, being at a rate of 6,667 common shares per \$1,000 principal amount of debenture. Upon conversion, any accrued interest shall be converted into common shares at the conversion price. On December 30, 2014, the Company repaid the remaining secured convertible term note under an early discounted settlement agreement (Note 9).

The value of goodwill was calculated as the excess of the fair value of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed. This goodwill is not deductible for income tax purposes.

#### *Value of assets acquired and liabilities assumed*

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Cash	\$	89,551
Accounts receivable		2,226,709
Work in progress		477,371
Prepaid expenses		18,164
Deferred tax assets		2,368,415
Intangible assets		2,320,000
Goodwill		438,124
Property and equipment		139,019
Accounts payable and accruals		(1,982,147)
Deferred revenue		(1,862,270)
Long term debt		(2,434,836)
Deferred tax liabilities		(693,100)
Long term payables		(105,000)
	\$	1,000,000

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**Bluedrop Performance Learning Inc.**

Notes to Consolidated Financial Statements

Unaudited

**Three months ended December 31, 2014**In Canadian dollars

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**4. Accounts receivable**

	<b>December 31</b>	<b>September 30</b>
	<b>2014</b>	<b>2014</b>
Trade	\$ 4,278,213	5,368,431
Government assistance	1,791,797	1,607,061
Other	42,741	19,073
	<hr/> \$ 6,112,751	<hr/> 6,994,565

**5. Related party transactions**

(a) Due from (to) related parties

	<b>December 31</b>	<b>September 30</b>
	<b>2014</b>	<b>2014</b>
Shareholder loan	\$ (14,638)	1,591
Share purchase loans	169,816	169,816
	<hr/> \$ 155,178	<hr/> 171,407

Shareholder loan includes a payable to the Company's beneficial controlling shareholder. The balance due is non-interest bearing and has no set terms of repayment.

Share purchase loans are due from a former employee and from a director of the Company. As collateral for the non-interest bearing share purchase loans, the borrowers have granted the Company a security interest in the shares purchased. The loan due from the former employee was due January 31, 2015. The Company is in discussion with the former employee on settlement terms and has not realized on its security as at the date of these financial statements. The loan due from the director is repayable in full on or before June 27, 2017.

(b) Related party transactions

	<b>2014</b>	<b>2013</b>
Rent expense	\$ 65,520	65,520
Fees, salaries and benefits for key management personnel	155,100	158,983
Share based compensation for key management personnel	44,577	29,600

Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Effective October 1, 2011, the Company entered into a 6 year lease, with a 4 year renewal option, with LB2P for 100% of the premises available for lease at 18 Prescott Street, St. John's, NL. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter.

Key management personnel include the President and Chief Executive Officer, the Chief Financial Officer and the directors of the Company. The Executive Chairman's fees are paid to a corporation under his control.

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**Bluedrop Performance Learning Inc.**

Notes to Consolidated Financial Statements

Unaudited

**Three months ended December 31, 2014**In Canadian dollars

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**6. Goodwill and other intangible assets**

		<b>Courseware</b>		<b>Customer</b>		
	<b>Licences</b>	<b>and other</b>	<b>Technology</b>	<b>Relationships</b>	<b>Goodwill</b>	<b>Total</b>
<b>Cost</b>						
October 1, 2013	\$ 265,500	180,770	1,957,948	585,000	1,415,007	4,404,225
Additions	-	-	863,998	-	-	863,998
Disposals	-	(118,955)	-	-	-	(118,955)
Government assistance	-	-	(711,429)	-	-	(711,429)
Business combination (Note 3)	-	-	-	2,320,000	438,124	2,758,124
September 30, 2014	\$ 265,500	61,815	2,110,517	2,905,000	1,853,131	7,195,963
Additions	-	-	204,955	-	-	204,955
Government assistance	-	-	(84,146)	-	-	(84,146)
December 31, 2014	\$ 265,500	61,815	2,231,326	2,905,000	1,853,131	7,316,772
<b>Accumulated amortization and impairment losses</b>						
October 1, 2013	\$ 238,875	136,292	905,640	139,286	-	1,420,093
Amortization	26,625	29,739	281,227	257,571	-	595,162
Disposals	-	(104,216)	-	-	-	(104,216)
September 30, 2014	\$ 265,500	61,815	1,186,867	396,857	-	1,911,039
Amortization	-	-	74,988	78,893	-	153,881
December 31, 2014	\$ 265,500	61,815	1,261,855	475,750	-	2,064,920
<b>Carrying values</b>						
October 1, 2013	\$ 26,625	44,478	1,052,308	445,714	1,415,007	2,984,132
September 30, 2014	\$ -	-	923,650	2,508,143	1,853,131	5,284,924
December 31, 2014	\$ -	-	969,471	2,429,250	1,853,131	5,251,852

Included in Technology are \$204,955 of internally generated additions for the three months ended December 31, 2014.

## Bluedrop Performance Learning Inc.

Notes to Consolidated Financial Statements

Unaudited

Three months ended December 31, 2014

In Canadian dollars

### 7. Property and equipment

	Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
<b>Cost</b>					
October 1, 2013	\$ 980,186	913,162	113,640	297,758	2,304,746
Additions	171,027	7,819	-	(93,557)	85,289
Additions subject to finance lease	67,473	-	-	-	67,473
Disposals	(776,694)	(112,667)	(66,673)	-	(956,034)
Government assistance	(28,605)	-	-	-	(28,605)
Business combination (Note 3)	77,581	61,438	-	-	139,019
September 30, 2014	\$ 490,968	869,752	46,967	204,201	1,611,888
Additions	19,485	-	-	-	19,485
Disposals	-	-	-	(10,245)	(10,245)
December 31, 2014	\$ 510,453	869,752	46,967	193,956	1,621,128
<b>Accumulated depreciation</b>					
October 1, 2013	\$ 701,347	256,646	81,950	97,279	1,137,222
Depreciation	208,317	109,806	14,689	41,455	374,267
Disposals	(676,212)	(88,090)	(51,166)	-	(815,468)
September 30, 2014	\$ 233,452	278,362	45,473	138,734	696,021
Depreciation	33,501	29,198	849	4,022	67,570
Disposals	-	-	-	(10,245)	(10,245)
December 31, 2014	\$ 266,953	307,560	46,322	132,511	753,346
<b>Carrying values</b>					
October 1, 2013	\$ 278,839	656,516	31,690	200,479	1,167,524
September 30, 2014	\$ 257,516	591,390	1,494	65,467	915,867
December 31, 2014	\$ 243,500	562,192	645	61,445	867,782
<b>Carrying values of assets subject to finance leases</b>					
October 1, 2013	\$ 103,635	98,224	-	-	201,859
September 30, 2014	\$ 79,122	78,797	-	-	157,919
December 31, 2014	\$ 68,383	72,994	-	-	141,377

### 8. Operating loans

The Company has a short term bank operating line of credit to a maximum of the lesser of \$3,500,000 and defined marginable accounts receivable minus specified liabilities. The revolving operating facility is repayable on demand and bears interest at Royal Bank prime plus 1.95%. The Company has provided a General Security Agreement as security for this indebtedness. The line of credit balance as at December 31, 2014 was \$1,485,000 (September 30, 2014 – \$1,005,000).

## Bluedrop Performance Learning Inc.

Notes to Consolidated Financial Statements

Unaudited

Three months ended December 31, 2014

In Canadian dollars

### 9. Long term debt

	<b>Maturity</b>	<b>December 31 2014</b>	<b>September 30 2014</b>
Unsecured convertible term note - 14%	2013-2016	2,797,065	2,777,125
Secured convertible term note - 8%	2013-2015	-	1,556,178
Unsecured royalty obligation	n/a	1,095,276	1,046,685
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	449,322	441,198
Atlantic Canada Opportunities Agency - non-interest bearing	2012-2017	239,568	258,265
Government of Nova Scotia - 5%	2013-2021	1,257,223	1,293,777
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018	292,854	308,763
Invest New Brunswick - non-interest bearing	2013-2014	40,985	71,014
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019	328,169	313,834
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2016	451,413	431,694
		<u>6,951,875</u>	<u>8,498,533</u>
less: current portion		(903,655)	(2,406,673)
<b>Total long term debt</b>		<b>\$ 6,048,220</b>	<b>6,091,860</b>

On December 30, 2014 the Company entered into an early discounted settlement agreement to repay the 8% secured convertible term note acquired in the acquisition of Atlantis. Under the agreement the Company paid \$1,125,000 on settlement of the debt. As at the settlement date the principal and accrued interest payable was \$1,595,422, resulting in a gain on settlement of \$470,422.

### 10. Provisions

To December 31, 2014 the Company had recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,828,717 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and services resulting from the research funded. A continuity of the amount of the provision recognized is as follows:

	<b>December 31 2014</b>	<b>September 30 2014</b>
Opening balance	\$ 1,188,864	1,186,545
Accretion	50,527	201,713
Royalties paid or payable	(20,477)	(27,771)
Additions and revaluations	4,413	(171,623)
	<u>\$ 1,223,327</u>	<u>1,188,864</u>

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**Bluedrop Performance Learning Inc.**

Notes to Consolidated Financial Statements

Unaudited

**Three months ended December 31, 2014**In Canadian dollars

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**11. Share capital**

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

	<b>Number of Shares</b>	<b>Share capital</b>
Issued and outstanding at October 1, 2013	98,986,609	\$ 5,053,021
Issued and outstanding at September 30, 2014 and December 31, 2014	98,986,609	\$ 5,053,021

(c) Share options (2010 Stock Option Plan)

	<b>Number of options</b>	<b>Exercise price per share</b>
Outstanding at October 1, 2013	262,375	\$0.40
Expired	(25,000)	\$0.40
Outstanding and exercisable at September 30, 2014 and December 31, 2014	237,375	\$0.40

(d) Share options (2011 Stock Option Plan)

	<b>Number of options</b>	<b>Exercise price per share</b>
Outstanding at October 1, 2013	6,160,771	\$0.18
Granted	9,248,284	\$0.13
Forfeitures	(1,559,264)	\$0.20
Expired	(195,600)	\$0.24
Outstanding at September 30, 2014	13,654,191	\$0.18
Expired	(522,580)	\$0.23
Outstanding at December 31, 2014	13,131,611	\$0.17
Exercisable at December 31, 2014	3,156,635	\$0.22

Pursuant to the 2011 Stock Option Plan, the Company has reserved a maximum of 16,827,718 of common shares of the Company for issuance on the exercise of share options. These options expire five years after the date of grant and vest over a three year period as follows: 10% at time of grant; 20% on the first anniversary; 20% on the second anniversary and 50% on the third anniversary.

The Company recorded \$70,423 of share-based compensation expense in the three months ended December 31, 2014 relating to the 2011 Stock Option Plan (December 31, 2013 - \$73,098). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options granted in the year ended September 30, 2014:

Risk free interest rate	1.35%
Expected dividend yield	0%
Share price volatility	40%
Expected life	3.6 years
Average fair value of options granted	\$0.0403

(e) Employee share purchase plan

The Company has a employee share purchase plan which permits employees to subscribe to common shares of the Company through payroll deductions. The Company may provide financial assistance with respect to the plan by way of loan, guarantee or otherwise. The Company has reserved a maximum of 2,969,597 common shares under the employee share purchase plan. As at December 31, 2014 no shares were outstanding under the plan.

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**Bluedrop Performance Learning Inc.**

Notes to Consolidated Financial Statements

Unaudited

**Three months ended December 31, 2014**In Canadian dollars

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**12. Government assistance**

	<b>2014</b>	<b>2013</b>
ACOA-AIF contributions	\$ 102,000	240,000
less: additions and revaluation of ACOA-AIF provision	(4,414)	(16,843)
National Research Council - Industrial Research Assistance Program	71,822	33,268
Invest New Brunswick	-	31,989
Scientific Research and Experimental Development credits	-	60,000
Nova Scotia Digital Media Tax Credits	95,914	24,000
	<u>\$ 265,322</u>	<u>372,414</u>
Government assistance included in:		
Net earnings	196,915	228,579
Deferred revenue	(15,739)	(15,739)
Intangible assets	84,146	159,574
	<u>\$ 265,322</u>	<u>372,414</u>

**13. Finance costs**

	<b>2014</b>	<b>2013</b>
Interest on long term debt	\$ 160,992	18,423
Interest on finance lease obligations	968	1,566
Short term interest and bank charges	10,979	4,779
Accretion of long term debt	186,492	42,646
Accretion of provisions	50,527	50,428
Other financing costs	583	-
Total finance costs	<u>\$ 410,541</u>	<u>117,842</u>

**14. Changes in non-cash working capital**

	<b>2014</b>	<b>2013</b>
Accounts receivable	\$ 881,814	406,863
Work in progress	430,506	293,315
Prepaid expenses	22,160	48,888
Accounts payable and accruals	(489,382)	1,035,264
Deferred revenue	(120,718)	(253,584)
	<u>\$ 724,380</u>	<u>1,530,746</u>
Changes in non-cash working capital related to:		
Operating activities	846,084	1,483,588
Investing activities	(121,704)	47,158
	<u>\$ 724,380</u>	<u>1,530,746</u>

**15. Expenses classified by nature**

Certain expenses are classified by function in the statement of comprehensive income (loss). These include Direct costs, Sales and marketing, and General and administration. A schedule of these expenses presented by nature is as follows:

	<b>2014</b>	<b>2013</b>
Salaries and other labour costs	\$ 2,981,313	1,993,380
Materials, services and supplies	547,322	484,699
Travel and living	91,543	90,929
Occupancy	193,612	173,153
Professional fees	151,095	110,635
Other costs	112,540	121,638
Total expenses classified by nature	<u>\$ 4,077,425</u>	<u>2,974,434</u>

## Bluedrop Performance Learning Inc.

Notes to Consolidated Financial Statements

Unaudited

Three months ended December 31, 2014

In Canadian dollars

### 16. Segment reporting

Bluedrop's business is organized and managed as two complementary lines of e-Learning based training businesses.

Bluedrop Training and Simulation is one of Canada's leading providers of comprehensive training solutions for the defence sector. With over 40 years' experience and hundreds of training devices delivered it prides itself on its resume and skilled work force of approximately 130 people. Bluedrop Training and Simulation provides a full suite of products and services ranging from; training needs analysis and design, courseware and technical documentation, training information management systems, training program delivery, virtual reality based trainers and simulators and in service support for larger simulators and programs. It services all branches of the defence sector including naval, air force and army operations as well as other security agencies.

Bluedrop Learning Networks is pioneering the development and adoption of a SaaS based training and delivery platform providing large scale customers with the ability to engage, track training and monitor training of large users groups spread out of multiple locations. It provides the complete service offering and solutions to meet the operational requirements of its clients from designing the training requirement, to building custom content, to operating and supporting the training and delivery platform. Revenues are generated from, recurring platform licences, custom courseware development, consulting services, and the sale of commercial off-the-shelf courses.

Segment profit or loss includes revenues and costs directly attributable to the operations of the segment. In addition management allocates a portion of shared administrative costs based on the attributable office space of those segments. Segment information for the reporting periods are as follows:

	<b>2014</b>			
	<b>Bluedrop Learning Networks</b>	<b>Bluedrop Training and Simulation</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenue	\$ 840,055	3,509,291	-	4,349,346
Direct costs	426,081	2,289,267	-	2,715,348
<b>Gross profit</b>	<b>413,974</b>	<b>1,220,024</b>	<b>-</b>	<b>1,633,998</b>
<b>Expenses</b>				
Sales and marketing	246,670	159,702	19,682	426,054
General and administration	99,611	280,629	555,783	936,023
Government assistance	(101,001)	(95,914)	-	(196,915)
Share-based compensation	12,662	4,811	52,950	70,423
Finance costs	-	-	410,541	410,541
Depreciation and amortization	107,565	109,212	4,674	221,451
Other gains and losses	-	-	(471,922)	(471,922)
	365,507	458,440	571,708	1,395,655
<b>(Loss) earnings before income taxes</b>	<b>\$ 48,467</b>	<b>761,584</b>	<b>(571,708)</b>	<b>238,343</b>

	<b>2013</b>			
	<b>Bluedrop Learning Networks</b>	<b>Bluedrop Training and Simulation</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenue	\$ 1,111,603	925,595	-	2,037,198
Direct costs	361,188	924,606	-	1,285,794
<b>Gross profit</b>	<b>750,415</b>	<b>989</b>	<b>-</b>	<b>751,404</b>
<b>Expenses</b>				
Sales and marketing	496,865	246,648	158	743,671
General and administration	232,136	203,802	509,031	944,969
Acquisition and restructuring costs	186,000	-	1,480,406	1,666,406
Government assistance	(171,311)	(24,000)	(33,268)	(228,579)
Share based compensation	19,665	17,568	35,865	73,098
Finance costs	-	-	117,842	117,842
Depreciation and amortization	132,684	27,998	15,999	176,681
Other gains and losses	-	-	5,913	5,913
	896,039	472,016	2,131,946	3,500,001
<b>(Loss) earnings before income taxes</b>	<b>\$ (145,624)</b>	<b>(471,027)</b>	<b>(2,131,946)</b>	<b>(2,748,597)</b>

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## **Bluedrop Performance Learning Inc.**

Notes to Consolidated Financial Statements

Unaudited

**Three months ended December 31, 2014**

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In Canadian dollars

### **17. Comparative figures**

Comparative figures have been reclassified to conform with the December 31, 2014 statement of comprehensive income presentation. Presentation changes include reclassification of certain costs previously classified as general and administration to direct costs. In addition, certain costs previously included in general and administration were reclassified to acquisition and restructuring costs.

### **18. Subsequent events**

(a) Modification of term loan repayment terms

On January 5, 2015, the Company entered into an agreement to amend the repayment terms of an ACOA term loan. Under the amended arrangement the loan is repayable in five quarterly instalments of \$100,000 commencing on January 1, 2016.

(b) Unsecured convertible term note

On February 13, 2015, the Company received financing of \$625,000 in the form of an unsecured convertible debenture. The unsecured debenture bears interest at 14% per annum, interest payable quarterly, and is repayable on December 30, 2016. The debenture is convertible at a conversion price of \$0.15 per common share. Upon conversion, any accrued interest shall be converted into common shares at the current market price.

(c) Unsecured term loan

On February 17, 2015, the Company received financing of \$600,000 in the form of an 18 month unsecured term loan from an entity controlled by the Company's beneficial controlling shareholder and director. The term loan bears interest, payable monthly, at 16% per annum and is subordinated to existing senior credit and other term loan facilities. The terms of the loan provide that early repayment can be made by Bluedrop, without penalty, by providing 90 days notice.