Bluedrop Performance Learning Inc.

Consolidated Financial Statements

Year ended September 30, 2015

Contents

Grant Thornton

Independent auditor's report

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To the Shareholders of

Bluedrop Performance Learning Inc.

We have audited the accompanying consolidated financial statements of Bluedrop Performance Learning Inc., which comprise the consolidated statements of financial position as at September 30, 2015, September 30, 2014, and October 1, 2013 and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years ended September 30, 2015 and September 30, 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 in our audits 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 consolidated financial position of Bluedrop Performance Learning Inc. as at September 30, 2015, September 30, 2014 and October 1, 2013 and its financial performance and its cash flows for the years ended September 30, 2015 and September 30, 2014 in accordance with International Financial Reporting Standards.

Grant Thornton LLP

St. John's, Canada

January 28, 2016

Chartered accountants

Bluedrop Performance Learning Inc.

Consolidated Statements of Financial Position

In Canadian dollars	September 30 2015	September 30 2014 (As Restated) (Note 5)	October 1 2013 (As Restated) (Note 5)
ASSETS			
Current assets			
Cash and cash equivalents	$ 3,196,631	4,055	229,813
Accounts receivable (Note 7)	4,613,225	7,046,383	3,267,083
Unbilled revenue	1,461,286	971,338	493,572
Prepaid expenses	499,165	488,220	449,034
	9,770,307	8,509,996	4,439,502
Other long term assets	169,816	119,589	50,227
Deferred tax assets (Note 8)	4,793,920	4,934,414	2,254,853
Goodwill and other intangible assets (Note 9)	5,706,941	5,183,460	2,760,812
Property and equipment (Note 10)	676,356	915,867	1,167,524
	$ 21,117,340	19,663,326	10,672,918
LIABILITIES AND EQUITY			
Current liabilities			
Bank indebtedness (Note 11)	$ -	1,071,655	-
Accounts payable and accruals	2,995,067	2,727,677	1,763,593
Deferred revenue	4,342,926	2,855,758	1,616,965
Deferred development funding (Note 12)	1,806,020	-	-
Current portion of long term debt (Note 13)	1,426,660	2,245,900	470,340
Other current liabilities	347,549	274,345	129,152
	10,918,222	9,175,335	3,980,050
Long term debt (Note 13)	5,534,617	5,205,948	2,065,173
Other financial liabilities (Note 14)	2,827,298	2,255,252	1,373,552
Deferred revenue	905,404	2,501,761	-
Deferred tax liabilities (Note 8)	571,808	641,118	-
Other long term liabilities	11,558	70,386	35,568
	20,768,907	19,849,800	7,454,343
Equity			
Share capital (Note 15)	5,053,021	5,053,021	5,053,021
Reserves	1,543,495	1,322,350	899,856
Deficit	(6,248,083)	(6,561,845)	(2,734,302)
	348,433	(186,474)	3,218,575
	$ 21,117,340	19,663,326	10,672,918

Approved on Behalf of the Board

Derrick H. Rowe
Director

Emad Rizkalla
Director

Bluedrop Performance Learning Inc.

Consolidated Statements of Comprehensive Income (Loss)

Year Ended September 30		**2015**	**2014**
In Canadian dollars			**(As Restated) (Note 5)**
Revenue			
Services revenue	$	16,528,234	12,865,891
Product sales		4,644,618	2,527,424
		21,172,852	15,393,315
Direct costs		11,899,960	9,437,922
Gross profit		9,272,892	5,955,393
Expenses			
Sales and marketing		2,056,101	2,513,577
General and administration		4,611,940	4,701,471
Research and development costs		126,582	-
Acquisition and restructuring costs		-	2,112,203
Government assistance and other funding (Note 16)		(558,147)	(1,106,779)
Share-based compensation (Note 15)		194,843	221,028
Finance costs (Note 17)		1,997,525	960,810
Depreciation and amortization		897,507	924,765
Other (gains) and losses		(428,177)	(93,084)
		8,898,174	10,233,991
Profit (Loss) before income taxes		374,718	(4,278,598)
Income tax expense (recovery) (Note 8)			
Current		-	(9,579)
Deferred		60,956	(441,476)
		60,956	(451,055)
Net profit (loss) and comprehensive loss	$	313,762	(3,827,543)
Net profit (loss) per share (Note 15)			
Basic		0.0032	(0.0387)
Diluted		0.0032	(0.0387)
Weighted average number of shares outstanding (Note 15)			
Basic		98,986,609	98,986,609
Diluted		99,110,449	98,986,609

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Year Ended September 30

In Canadian dollars

	Ordinary Common Shares	Share Capital	Share Option Reserve	Convertible Notes	Retained Earnings (Deficit) (As Restated) (Note 5)	Total
October 1, 2013	98,986,609	$ 5,053,021	899,856	-	(2,438,867)	3,514,010
Prior period restatement (Note 5)	-	-	-	-	(295,435)	(295,435)
October 1, 2013	98,986,609	$ 5,053,021	899,856	-	(2,734,302)	3,218,575
Issue of convertible note, net of tax	-	-	-	201,466	-	201,466
Share-based compensation	-	-	221,028	-	-	221,028
Loss and comprehensive loss	-	-	-	-	(3,827,543)	(3,827,543)
September 30, 2014	98,986,609	$ 5,053,021	1,120,884	201,466	(6,561,845)	(186,474)
Share-based compensation	-	-	194,843	-	-	194,843
Issue of convertible note, net of tax	-	-	-	26,302	-	26,302
Loss and comprehensive loss	-	-	-	-	313,762	313,762
September 30, 2015	98,986,609	$ 5,053,021	1,315,727	227,768	(6,248,083)	348,433

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Year Ended September 30		2015	2014
In Canadian dollars			(As Restated) (Note 5)
Increase (decrease) in cash and cash equivalents			
Operating activities			
Net profit (loss) for the period	$	313,762	(3,827,543)
Items not affecting cash:			
Share-based compensation		194,843	221,028
Depreciation and amortization		897,507	924,765
Non-cash government assistance		(192,567)	(604,170)
Gain on settlement of long term debt		(470,422)	-
Finance costs		1,997,525	960,810
Deferred taxes		60,956	(441,476)
Unrealized loss on derivative instruments		19,535	-
Loss (gain) on disposal or property and equipment		42,245	(150,223)
Interest paid		(59,550)	(45,847)
		2,803,834	(2,962,656)
Changes in non-cash working capital (Note 18)		3,324,301	(848,684)
Net change in cash from operating activities		6,128,135	(3,811,340)
Investing activities			
Net cash flow on business combinations (Note 6)		-	(910,449)
Proceeds on disposal of property and equipment		11,500	305,528
Purchase of property and equipment, net of government assistance		(57,508)	(56,684)
Purchase of intangible assets, net of government assistance		(1,283,017)	(713,418)
		(1,329,025)	(1,375,023)
Changes in non-cash working capital (Note 18)		521,958	65,535
Net change in cash from investing activities		(807,067)	(1,309,488)
Financing activities			
Repayment of obligations under finance leases		(49,737)	(87,885)
Advances of long term debt		1,225,000	4,199,537
Repayment of long term debt		(1,665,843)	(1,533,557)
Advances of other financial liabilities		257,700	1,857,599
Repayment of other financial liabilities		(275,968)	(129,942)
Decrease in other long term liabilities		(28,167)	(76,833)
Interest paid		(519,822)	(405,504)
Net change in cash from financing activities		(1,056,837)	3,823,415
Increase (decrease) in cash and cash equivalents		4,264,231	(1,297,413)
(Bank indebtedness) cash and cash equivalents, beginning of period		(1,067,600)	229,813
Cash and cash equivalents (bank indebtedness), end of period	$	3,196,631	(1,067,600)
Cash and cash equivalents (bank indebtedness) consists of:			
Cash on hand and in bank	$	3,196,631	4,055
Bank indebtedness		-	(1,071,655)
	$	3,196,631	(1,067,600)

See notes to the financial statements

1. Nature of operations

Bluedrop Performance Learning Inc. ("Bluedrop" or "the Company") was continued under the Corporations Act of Newfoundland and Labrador on January 26, 2012. These consolidated financial statements comprise the Company and its 100% owned operating subsidiaries as follows:

Bluedrop Training & Simulation Inc.
Bluedrop Learning Networks Inc.
Bluedrop Simulation Services Inc.

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 January 27, 2016.

2. Basis of presentation

These financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB).

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 set out below have been applied consistently in the preparation of the financial statements of all periods presented. Comparative period financial information has been restated to reflect a change in accounting policy (Note 5).

3. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks. Bank borrowings are considered to be financing activities.

(b) Intangible assets

Intangible assets are stated at cost less accumulated amortization. Except where they have indefinite lives, intangible assets are amortized on a straight-line basis over their estimated useful lives or licence contract period at the following rates:

Licences	3 - 5 years
Technology	5 years
Customer relationships	7 - 10 years
Courseware and other	3 years

Government contributions toward intangible assets are recorded as a reduction in the cost of the asset.

3. Significant accounting policies (continued)

(c) Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Property and equipment is depreciated on a straight-line basis over the following estimated useful lives:

Computer equipment and software	3 - 5 years
Equipment - simulation equipment	10 years
Equipment - other	5 years
Furniture and fixtures	7 years
Vehicles	5 years
Leasehold improvements	10 years

Leasehold improvements are amortized over the lesser of the useful life of the asset and the remaining lease period.

Government contributions toward property and equipment are recorded as a reduction in the cost of the asset.

(d) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Where the Company is a lessee in a finance lease, the related asset is recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance lease liability. The leased assets are depreciated in accordance with the Company's policy for owned assets of the same type. For operating leases, payments are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(e) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. No provision is recognized where the possible outflow of economic resources as a result of present obligations is improbable or remote.

Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized within finance costs in the statement of comprehensive income (loss).

(f) Revenue recognition

Multiple-element arrangements

The Company often enters into sales transactions involving the supply of multiple products and services including the supply of courseware, professional services, hosted services and software licence arrangements. The consideration received from multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value as determined by an internal pricing analysis, or based on the residual method, as applicable. The Company applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction.

3. Significant accounting policies (continued)

(f) Revenue recognition (continued)

Services revenue

Service revenues are generated from services rendered in custom courseware development and consulting services.

Revenues from custom courseware development contracts are recognized on a percentage of completion basis, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Revenues are recognized as services are rendered when the revenue and costs incurred and to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. The timing of revenue recognition often differs from contract payment schedules. Amounts billed in accordance with customer contracts but in advance of completion of services are recorded as deferred revenue. The value of unbilled services performed is recorded as unbilled revenue.

Revenues from consulting services are recognized as services are rendered when the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

Product sales

Product sales include the sale of simulation products, courseware licensing and commercial off-the-shelf courseware. Revenues from the sale of goods are recognized when risks and rewards of ownership have transferred to the buyer, the Company retains neither continuing managerial involvement nor effective control over the goods sold, the amount of revenue and costs incurred in respect to the transaction can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Company.

The Company develops and sells simulators and simulation related products. Revenues from the sale of such products are recognized when the product has been delivered to the customer and the recognition criteria noted above are met. Associated warranty and support revenues are deferred and recognized over the term specified in the arrangement.

The Company offers online training solutions for businesses and individuals through *CoursePark*™ and *Bluedrop360*™, cloud-based learning management solutions and *Campus*™, a traditional learning management system. Revenues from commercial off-the-shelf courseware, and learning management system licencing is recognized over the term of the licence arrangement. Amounts billed but not recognized are recorded as deferred revenue.

(g) Development costs

Costs incurred on development projects, which in management's view have clearly defined market prospects, are technically feasible and for which the Company intends to commit resources, are capitalized as intangible assets. Capitalized development costs represent expenditures incurred by the Company primarily related to the development of the *CoursePark™* and *Bluedrop360™* learning management systems and associated courseware.

Costs associated with projects in the condition necessary for them to be capable of operating in the manner intended by management are amortized over their estimated useful lives. If capitalized expenditures are deemed to be no longer commercially viable or facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the balance of capitalized development costs is expensed. Any research and development costs that do not meet the criteria for capitalization are expensed as incurred.

3. Significant accounting policies (continued)

(h) Government assistance

The Company receives government assistance in the form of non-repayable contributions, conditionally-repayable contributions, forgivable loans and credits under the Scientific Research and Experimental Development (SRED) and Digital Media Tax Credit (DMTC) programs. Contributions toward property and equipment and capitalized development projects are recorded as a reduction in the cost of the asset. Contributions toward operating costs are recorded in government assistance on the statement of comprehensive income (loss).

Government grants are recognized when there is reasonable assurance that the grant will be received and all significant conditions will be achieved. Credits under the SRED and DMTC programs are recorded when amounts can be reasonably estimated and receipt is reasonably assured.

The benefit of government loans at below-market rates of interest are treated as a government grant. The loan is recognized and measured in accordance with *IAS 39 Financial Instruments: Recognition and Measurement* . The benefit of the below-market rate of interest is measured as the difference between the initial carrying value of the loan determined in accordance with *IAS 39* and the proceeds received.

(i) Share-based compensation

The Company has an equity settled share-based compensation plan and records compensation expense for share options using the fair value method. The compensation expense for options granted to employees is determined based on the estimated fair value of the share options at the time of grant using the Black-Scholes option pricing model and is amortized over the vesting period with an offset to share option reserve. When options are exercised, the corresponding share option reserve and the proceeds received by the Company are credited to share capital. The amount recognized as expense is adjusted to reflect the number of options expected to vest.

(j) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the Company’s forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

3. **Significant accounting policies** (continued)

(k) Financial instruments

The Company classifies all financial instruments as either held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. All financial instruments are initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value, with any change in fair value recognized in earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost using the effective interest method.

The Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	**Classification**	**Measurement**
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivables	Loans and receivables	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accruals	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Other financial liabilities	Other financial liabilities	Amortized cost

Government loans with below-market interest rates are measured at amortized cost using the effective interest method. The difference between the fair values at inception and the loan proceeds received is recorded as government assistance.

Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are added to or deducted from the fair value of the financial asset or financial liability, as appropriate, on initial recognition and amortized using the effective interest method.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counter party will default.

(l) Compound financial instruments (convertible notes)

Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder at a fixed conversion rate.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

3. Significant accounting policies (continued)

(m) Business combinations

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of the fair value of consideration transferred, the recognized amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

(n) Earnings per share

Basic earnings (loss) per share are computed by dividing earnings (loss) by the weighted average shares outstanding during the reporting period. The Company calculates diluted earnings per share under the treasury share method for warrants and share options. Under the treasury share method, the proceeds from the exercise of warrants and options are assumed to be used to repurchase the Company's shares on the open market. The difference between the number of shares assumed purchased and the number of warrants and options exercised is added to the number of basic shares outstanding to determine diluted shares outstanding for purposes of calculating diluted earnings per share.

(o) Impairment of assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Cash-generating units to which goodwill has been allocated (determined by the Company as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

3. **Significant accounting policies** (continued)

(p) Significant management judgement and estimation uncertainty

In the process of applying the Company's accounting policies, management has made certain judgments, estimates, and assumptions which affect the amounts recognized in these financial statements. The Company has identified the following policies where critical judgments, estimates and assumptions are made and where actual results could be materially different.

Significant management judgements

The following are significant management judgements in applying the accounting policies that have the most significant impact on the financial statements:

i) Revenue recognition

Revenue from services contracts is recognized on a percentage of completion basis, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Judgement is used in determining the stage of completion and estimates of costs to complete. The Company employs sophisticated project management tools to assist with the management of projects and the recognition of revenue on a percentage completion basis. Management regularly reviews the systems, processes, and calculations relating to percentage completion on significant contracts, making adjustments as required.

ii) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company recorded current and deferred tax expense based on management's interpretation of the tax regulations and its assumptions about the timing of income and expenses for tax purposes. Actual tax assessments or future changes to assumptions could result in future adjustments to recorded tax expense.

The Company has recognized deferred tax assets. Management considers that it is probable that the tax asset will be realized. The ultimate realization of this asset is dependent upon the Company's ability to generate sufficient taxable income to utilize the tax losses recognized. If future circumstances indicate that it is no longer probable that these tax assets will be realized, the carrying value of the tax asset will be reduced, resulting in a charge against income and a reduction of equity.

iii) Government assistance

The Company receives government assistance pursuant to specific contractual funding agreements and is also eligible to receive cash tax credits under the SRED and DMTC programs. Claims relating to specific funding agreements are based on the defined eligible costs pursuant to the agreements. Contributions are recognized when the related expenditures are incurred and/or when significant milestones have been achieved in a funded project. Government assistance may be overstated if the costs claimed are determined to be ineligible.

Government assistance is recorded when amounts can be reasonably estimated and receipt is reasonably assured. Government assistance may be overstated if the underlying project is determined to be ineligible or if certain costs claimed are determined to be ineligible.

iv) Development costs

Distinguishing the research and development phases of internal development projects and determining whether the recognition requirements for the capitalization of development costs are met requires judgement. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired.

v) Classification of financial arrangements

The Company has entered into complex financing arrangements in the form of conditionally repayable government grants with below-market interest rates. Management uses significant judgement in selection and application of accounting policies related to these arrangements.

3. **Significant accounting policies** (continued)

(p) Significant management judgement and estimation uncertainty (continued)

vi) Deferred development funding

The Company has entered into an arrangement with a third party whereby the third party has provided Bluedrop with funding towards development costs under Canada's Industrial and Regional Benefits (IRB) Policy in a non-exchange transaction. While the funding is not provided directly from government, the substance of the transaction is an indirect form of government assistance with the third party acting as an intermediary between a Government agency and Bluedrop. As such the arrangement has been accounted for in accordance with *IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance.*

<u>Estimation uncertainty</u>

The following are significant estimates used in recognition and measurement of assets, liabilities, income and expense. The actual results may differ from these estimates:

i) Fair value of financial liabilities

The Company has received long term debt financing at below-market interest rates as well as compound financial liabilities. The fair value of these financial liabilities is determined using discount rates expected to be incurred on similar debt in a fair market. Management has exercised judgement in estimating the applicable discount rate used in measuring the fair value of financial liabilities at below-market interest rates.

In addition, certain royalty arrangements classified as financial liabilities are subject to significant estimates including the amount and timing of future cash flows and discount rates used in measurement of the fair value.

ii) Impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating units based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

iii) Revenue recognition

Revenue from services contracts is recognized on a percentage of completion basis, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Changes to the estimate of percentage complete or estimated costs to complete could have a material impact on the carrying values of work in progress or deferred revenue and a material impact on future revenue.

iv) Share-based compensation

Management has made certain estimates and assumptions when calculating the fair value of share options. The significant assumptions include estimates of expected volatility, expected life and expected risk-free rate of return. Management also makes certain assumptions with respect to the number of options expected to vest. Changes in these assumptions may result in a material change to share-based compensation expense.

4. **New and future accounting standards**

The following new or amended standards are effective for annual periods beginning on or after the dates indicated below, with earlier adoption permitted. The Company has not early adopted these standards and is currently assessing the impact they will have on its financial statements.

IFRS 9 *Financial Instruments*
IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. [January 1, 2018]

In Canadian dollars

4. New and future accounting standards (continued)

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 presents new requirements for the recognition of revenue and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for multiple element arrangements and other complexities. IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and several revenue-related interpretations. [January 1, 2018]

5. Change in Accounting Policy

During the fiscal year ended September 30, 2015, the Company performed a review of its accounting policy related to the liabilities under the Atlantic Canada Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF). As a result of the review, management has selected to change the accounting policy related to the liability. Previously, the Company accounted for the funding received as government assistance in accordance with *IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance*. The Company recorded a related liability which was accounted for in accordance with *IAS 37 - Provisions*. Under this policy, the liability was recorded as a provision and revalued for changes in the amount and timing of cash flows and changes in the discount rate. Changes in the provision were offset against government assistance.

Management has selected to account for this liability in accordance with *IAS 39 - Financial Liabilities: Recognition and Measurement*. Under IAS 39, the liability is recorded as a financial liability using the effective interest method. The difference between the initial carrying value of the loan determined in accordance with IAS 39 and the proceeds received is recorded as government assistance in accordance with IAS 20. In accordance with IAS 39, the liability is revalued for changes in the timing and amount of cash flows, with the adjustment included in finance charges.

Management believes that the change in policy will result in greater consistency with similar transactions and will provide more reliable and relevant information about the effects of such transactions, the entity's financial performance and financial position, and related cash flows. The impact of the change in accounting policy has been accounted for on a retroactive basis as follows:

		September 30 2014 Previously Reported	Adjustment	September 30 2014 Restated
Statement of financial position				
Deferred tax assets	$	4,855,470	78,944	4,934,414
Goodwill and other intangible assets		5,284,924	(101,464)	5,183,460
Other financial liabilities		1,046,685	1,369,340	2,416,025
Provisions		1,188,864	(1,188,864)	-
Deficit		(6,358,849)	(202,996)	(6,561,845)
Statement of comprehensive income (loss)				
Government assistance		(1,247,394)	140,615	(1,106,779)
Finance costs		1,185,148	(224,338)	960,810
Depreciation and amortization		969,429	(44,664)	924,765
Income tax recovery (Deferred)		(477,424)	35,948	(441,476)
Net earnings (loss) per share - basic and diluted		(0.0396)	0.0009	(0.0387)

		October 1 2013 Previously Reported	Adjustment	October 1 2013 Restated
Statement of financial position				
Deferred tax assets	$	2,139,961	114,892	2,254,853
Goodwill and other intangible assets		2,984,132	(223,320)	2,760,812
Other financial liabilities		-	1,373,552	1,373,552
Provisions		1,186,545	(1,186,545)	-
Deficit		(2,438,867)	(295,435)	(2,734,302)

In Canadian dollars

6. 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 was 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. On December 30, 2014, the Company repaid the remaining secured convertible term note under an early discounted settlement agreement (Note 13).

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	
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

7. Accounts receivable

	September 30 2015	September 30 2014	October 1 2013
Trade	$ 3,286,298	5,368,431	1,666,427
Government assistance	1,301,514	1,607,061	1,446,483
Other	25,413	70,891	154,173
	$ 4,613,225	7,046,383	3,267,083

In Canadian dollars

8. Income taxes

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

		2015	2014
Earnings (loss) before income tax	$	374,718	(4,278,598)
Statutory tax rate		29.0%	28.6%
Expected tax expense		108,668	(1,225,457)
Non-deductible share based compensation		55,289	61,888
Other non-deductible expenses		20,934	332,007
Effect of difference in statutory tax rates of subsidiaries		(29,968)	-
Effect of unrecognized deferred tax assets		(122,042)	329,064
Revision of prior year estimates		28,075	51,443
	$	60,956	(451,055)
Current tax expense			
Adjustment for prior years	$	-	(9,579)
Deferred tax expense			
Origination and reversal of temporary differences		182,998	(771,080)
Change in recognized deductible temporary differences		190,777	578,001
Recognition of previously unrecognized tax losses		(312,819)	(248,397)
	$	60,956	(451,055)
Deferred tax expense included directly in equity	$	10,228	78,348

Deferred taxes reflect the net tax effects of the temporary differences between the carrying value of assets and liabilities for accounting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax position are as follows:

		September 30 2015	September 30 2014	October 1 2013
Unbilled revenue	$	-	(83,422)	(69,100)
Intangible assets		(256,889)	(805,487)	64,179
Property and equipment		383,362	153,102	78,278
Long term debt		(186,323)	(191,851)	(83,822)
Other financial liabilities		309,045	676,488	384,595
Deferred revenue		1,321,579	582,119	-
Non-capital losses		2,651,338	3,962,347	1,880,723
Deferred tax assets (liabilities)	$	4,222,112	4,293,296	2,254,853

Deferred tax liabilities of $5,147,713 associated with investments in subsidiaries have not been recognized, as the Company controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

During the year ended September 30, 2014, the deferred tax asset arising from non-capital loss included an amount of $1,735,111 related to the recognition of Atlantis non-capital losses acquired which are considered probable of being realized through future taxable profits. The deferred tax liabilities resulting from intangibles assets included an amount of $693,100 related to the recognition of intangible assets acquired as part of the acquisition (Note 6).

Deferred tax assets are recognised for tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the balances can be utilised. Management have based their assessment on forecasted future taxable income as a result of growth in operations and tax planning activities undertaken in the period. The following items have not been recognized as deferred tax assets as at September 30, 2015:

		September 30 2015	September 30 2014	October 1 2013
Deductible temporary differences	$	566,768	375,991	-
Non-capital losses		5,551,232	5,310,463	-

In Canadian dollars

9. Goodwill and other intangible assets

		Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost							
October 1, 2013	$	265,500	180,770	1,734,628	585,000	1,415,007	4,180,905
Additions		-	-	863,998	-	-	863,998
Disposals		-	(118,955)	-	-	-	(118,955)
Government assistance		-	-	(634,237)	-	-	(634,237)
Business combination (Note 6)		-	-	-	2,320,000	438,124	2,758,124
September 30, 2014	$	265,500	61,815	1,964,389	2,905,000	1,853,131	7,049,835
Additions		-	-	1,117,489	-	-	1,117,489
Government assistance		-	-	60,225	-	-	60,225
September 30, 2015	$	265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
Accumulated amortization and impairment losses							
October 1, 2013	$	238,875	136,292	905,640	139,286	-	1,420,093
Amortization		26,625	29,739	236,563	257,571	-	550,498
Disposals		-	(104,216)	-	-	-	(104,216)
September 30, 2014	$	265,500	61,815	1,142,203	396,857	-	1,866,375
Amortization		-	-	338,661	315,572	-	654,233
September 30, 2015	$	265,500	61,815	1,480,864	712,429	-	2,520,608
Carrying values							
October 1, 2013	$	26,625	44,478	828,988	445,714	1,415,007	2,760,812
September 30, 2014	$	-	-	822,186	2,508,143	1,853,131	5,183,460
September 30, 2015	$	-	-	1,661,239	2,192,571	1,853,131	5,706,941

Included in Technology are $1,117,489 (2014 - $863,998) of internally generated additions for the year ended September 30, 2015.

(a) Impairment test - Goodwill

For the purpose of annual impairment testing goodwill is allocated to the operating segments expected to benefit from the synergies of the business combinations in which the goodwill arises. At September 30, 2015 $1,415,007 of goodwill has been allocated to the Bluedrop Learning Networks operating segment and $438,124 has been allocated to the Bluedrop Training and Simulation operating segment.

The recoverable amount of the operating segments was based on value-in-use calculations covering a five-year forecast using estimated cash flows as determined by management. Management's key assumption includes annual growth in revenue reflective of the historical experience and consideration of trends in the market.

The present value of the expected cash flows of the operating segment was determined by applying a discount rate which reflects adjustments relating to market risk and risks specific to each operating segment.

In Canadian dollars

10. Property and equipment

		Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost						
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 6)		77,581	61,438	-	-	139,019
September 30, 2014	$	490,968	869,752	46,967	204,201	1,611,888
Additions		50,330	7,178	-	-	57,508
Disposals		-	(94,054)	-	(10,245)	(104,299)
September 30, 2015	$	541,298	782,876	46,967	193,956	1,565,097
Accumulated depreciation						
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		122,454	103,237	1,494	16,089	243,274
Disposals		-	(40,309)	-	(10,245)	(50,554)
September 30, 2015	$	355,906	341,290	46,967	144,578	888,741
Carrying values						
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
September 30, 2015	$	185,392	441,586	-	49,378	676,356

11. 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 was undrawn as at September 30, 2015 (September 30, 2014 – $1,005,000).

12. Deferred development costs

	September 30 2015	September 30 2014	October 1 2013
Opening balance	-	-	-
Funding received	1,932,602	-	-
Development costs incurred	(126,582)	-	-
	1,806,020	-	-

On July 8, 2015, Bluedrop and The Boeing Company (Boeing) entered into an agreement whereby Boeing would contribute US$2.29 million to the Company to support the development of the next generation rear crew trainer for the CH-47 Chinook helicopter. During the year ended September 30, 2015 the Company expensed $126,582 of costs related to the development of the trainer. The funding related to these costs was recognized in the period with the remainder deferred to fund future development costs associated with the simulator.

In Canadian dollars

13. Long term debt

	Maturity		September 30 2015	September 30 2014	October 1 2013
Unsecured convertible term notes - 14%	2013-2016	$	3,590,031	2,777,125	-
Secured convertible term note - 8%	2013-2015		-	1,556,178	-
Unsecured term loan - 16%	2015-2016		600,000	-	-
Other secured term notes - 1.9% to 4.4%	2014		-	-	26,215
Government assistance debt:					
Province of Newfoundland and Labrador - 4.75%	2016-2019		474,942	441,198	410,653
Atlantic Canada Opportunities Agency - non-interest bearing	2012-2017		180,600	258,265	328,569
Government of Nova Scotia - 5%	2013-2021		1,145,761	1,293,777	1,162,000
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018		242,682	308,763	368,580
Invest New Brunswick - non-interest bearing	2013-2014		-	71,014	239,496
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019		295,567	313,834	-
Atlantic Canada Opportunities Agency - non-interest bearing	2016-2017		431,694	431,694	-
			6,961,277	7,451,848	2,535,513
less: current portion			(1,426,660)	(2,245,900)	(470,340)
Total long term debt		$	5,534,617	5,205,948	2,065,173

(a) Early Settlement - Secured convertible term note - 8%

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.

(b) 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.

(c) 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 was 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.

(d) 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.

In Canadian dollars

14. Other financial liabilities

		September 30 2015	September 30 2014	October 1 2013
Unsecured royalty obligation		1,103,733	1,046,685	-
ACOA-AIF unsecured royalty obligation		2,020,928	1,433,185	1,425,914
		3,124,661	2,479,870	1,425,914
less: current portion		(297,363)	(224,618)	(52,362)
Total long term debt	$	2,827,298	2,255,252	1,373,552

(a) Unsecured royalty obligation

During the year ended September 30, 2014, the Company received $1,000,000 of financing in the form of an unsecured royalty arrangement. The agreement requires Bluedrop to pay a royalty of 1.0% of revenues in exchange for the principal provided.

On March 31, 2015, the Company extended the availability of funding under the unsecured royalty obligation. Under the amended arrangement Bluedrop has the option to draw an additional $650,000 of funding in exchange of an increased royalty of 0.65% of revenue, subject to certain adjustments. The extended balance was undrawn at September 30, 2015. The option expired on December 31, 2015.

(b) ACOA-AIF unsecured Royalty obligation

To September 30, 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 $2,984,419 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.

15. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding	Number of Shares	Share capital
Issued and outstanding at October 1, 2013	98,986,609	$ 5,053,021
Issued and outstanding at September 30, 2014 and September 30, 2015	98,986,609	$ 5,053,021

(c) Share options (2010 Stock Option Plan)	Number of options	Exercise price per share
Outstanding at October 1, 2013	262,375	$0.40
Expired	(25,000)	$0.40
Outstanding and exercisable at September 30, 2014 and September 30, 2015	237,375	$0.40

(d) Share options (2011 Stock Option Plan)	Number of options	Exercise price per share
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
Granted	3,508,747	$0.07
Forfeitures	(285,608)	$0.13
Expired	(554,314)	$0.23
Outstanding at September 30, 2015	16,323,016	$0.15
Exercisable at September 30, 2015	7,865,614	$0.20

In Canadian dollars

15. Share capital (continued)

(d) Share options (2011 Stock Option Plan) (continued)

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 $194,843 of share-based compensation expense in the year ended September 30, 2015 relating to the 2011 Stock Option Plan (September 30, 2014 - $221,028). 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:

	2015	**2014**
Risk free interest rate	0.66%	1.35%
Expected dividend yield	0%	0%
Share price volatility	37%	40%
Expected life	3.6 years	3.6 years
Average fair value of options granted	$0.0206	$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 September 30, 2015 no shares were outstanding under the plan.

(f) Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit (loss) attributable to shareholders as the numerator with no adjustments required. The reconciliation of the weighted average number of shares for the purposes of basic and diluted earnings per share is as follows:

	2015	**2014**
Common shares issued and outstanding at October 1	98,986,609	98,986,609
Weighted average number of shares used in basic earnings per share	98,986,609	98,986,609
Effect of share options on issue	123,840	-
Weighted average number of shares used in diluted earnings per share	99,110,449	98,986,609

At September 30, 2015, 14,943,048 share options (2014 - 13,891,566) and 24,166,667 shares on convertible notes (2014 - 30,608,883) were excluded from the calculation of diluted weighted average number of shares calculation because there effect would be anti-dilutive.

In Canadian dollars

16. Government assistance and other funding

			2015	2014
Government assistance:				
National Research Council - Industrial Research Assistance Program		$	246,477	111,835
Invest New Brunswick			16,014	83,147
Scientific Research and Experimental Development credits	(a)		(703,773)	306,296
Nova Scotia Digital Media Tax Credits			483,272	117,558
Discounts on below-market interest rate financial liabilities			297,870	1,087,827
Other indirect government assistance:				
The Boeing Company - Funding under the Government of Canada's IRB Policy			1,932,603	-
		$	2,272,463	1,706,663
Government assistance included in:				
Net earnings			558,147	1,106,779
Deferred development funding			1,806,020	-
Deferred revenue			(31,479)	(62,958)
Intangible assets			(60,225)	634,237
Property and equipment			-	28,605
		$	2,272,463	1,706,663

(a) Scientific Research and Experimental Development credits

During the year ended September 30, 2015 the Company reassessed the eligibility of prior tax year activities relating to the Scientific Research and Experimental Development(SR&ED) tax credit program and has recorded a provision against prior year tax credits recognized of $703,773, resulting in an negative impact on income of $333,475.

17. Finance costs

		2015	2014
Interest on long term debt	$	686,680	497,478
Interest on finance lease obligations		3,248	5,277
Short term interest and bank charges		49,081	38,411
Accretion of long term debt		360,975	285,835
Accretion of other financial liabilities		578,623	458,278
Revaluation of financial liabilities		308,449	(331,571)
Other financing costs		10,469	7,102
Total finance costs	$	1,997,525	960,810

18. Changes in non-cash working capital

		2015	2014
Accounts receivable	$	2,433,158	(1,552,591)
Unbilled revenue		(489,948)	(395)
Prepaid expenses		(10,945)	(21,022)
Other long term assets		(50,227)	(69,362)
Accounts payable and accruals		267,390	(1,018,063)
Deferred revenue		(109,189)	1,878,284
Deferred development funding		1,806,020	-
	$	3,846,259	(783,149)
Changes in non-cash working capital related to:			
Operating activities		3,324,301	(848,684)
Investing activities		521,958	65,535
	$	3,846,259	(783,149)

In Canadian dollars

19. Expenses classified by nature

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

		2015	2014
Salaries and other labour costs	$	13,342,879	12,103,233
Materials, services and supplies		2,831,112	1,948,551
Travel and living		518,585	518,078
Occupancy		803,818	922,174
Professional fees		700,507	650,495
Other costs		497,682	510,439
Total expenses classified by nature	$	18,694,583	16,652,970

20. Related party transactions

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. Related party transactions include:

(a) Share purchase loans

The Company has provided share purchase loans to a director of the Company. As collateral for the non-interest bearing share purchase loans, the borrower has granted the Company a security interest in a portion of the shares purchased. The loans are repayable in full on or before dates ranging between June 27, 2017 and January 31, 2018. As at September 30, 2015 the amount receivable was $169,816 (2014 - $119,589).

(b) Unsecured term loan

During the year ended September 30, 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 (See Note 13). During the year ended September 30, 2015 the Company incurred $85,756 of finance charges associated with the term loan.

(c) Rental lease

Effective October 1, 2011, the Company entered into a rental lease with an entity controlled by the Company's beneficial controlling shareholder. The arrangement provides for the lease of 100% of the premises at 18 Prescott Street, St. John's, NL with an initial term of six years and has a four year renewal option. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter. The Company incurred $262,080 (2014 - $262,080) associated with the lease.

(d) Key management personnel

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.

		2015	2014
Fees, salaries and benefits to key management personnel	$	888,403	724,442
Share based compensation to key management personnel		116,049	171,331

In Canadian dollars

21. Leases

Certain intangibles assets and property and equipment are held under finance lease arrangements. In addition, the Company has entered into operating lease arrangements for office occupancy and equipment. Operating lease expense for the year ended September 30, 2015 was $822,327 (2014 - $897,608). Future minimum lease payments (including interest) at September 30, 2015 are as follows:

		1 year	1-5 years	>5 years
Obligations under finance lease	$	31,960	11,781	-
Operating leases	$	748,827	2,794,666	1,864,247

The Company has entered into a rental lease for office premises in St. John's, NL with an initial term of six years ending September 30, 2017. The lease and has a four year renewal option. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter. The Company incurred $262,080 (2014 - $262,080) associated with the lease.

The Company has entered into a rental lease arrangement for office premises in Halifax, NS which expires on August 31, 2024. The remaining lease has a fixed net lease rate for the remainder of the term. The Company incurred $336,271 (2014 - $276,768) associated with the lease.

22. Financial instruments

Fair value measurement

In the event that the Company has financial instruments required to be recorded at fair value on the statement of financial position, these would be classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value estimation measurements. The fair value hierarchy has the following levels:

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
ii) Level 2 fair value measurement are those derived from inputs other than quoted market 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).
iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of September 30, 2015 the Company did not have financial instruments required to be recorded at fair value. The following table sets out the approximate fair values of financial instruments on the statement of financial position as at September 30, 2015, which are all recorded at amortized cost following initial recognition:

	September 30, 2015		September 30, 2014		October 1, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	3,196,631	3,196,631	4,055	4,055	229,813	229,813
Accounts receivable	4,613,225	4,613,225	7,046,383	7,046,383	3,267,083	3,267,083
Bank indebtedness	-	-	1,071,655	1,071,655	-	-
Accounts payable and accruals	2,995,067	2,995,067	2,727,677	2,727,677	1,763,593	1,763,593
Long term debt (including current portion)	6,961,277	6,924,065	7,451,848	7,238,607	2,535,513	2,535,513
Other financial liabilities (including current portion)	3,124,661	3,039,011	2,479,870	2,299,394	1,425,914	1,237,627

The fair values of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accruals approximates their carrying values due to their short-term maturity.

The fair values of the long-term debt and other financial liabilities are estimated using a discounted cash flow valuation technique. The fair value measurment uses level 3 inputs based on estimates of future cash flows associated with the liabilities and discount rates that reflect market assessments of the performance risk which includes the credit risk of Company at September 30, 2015.

22. Financial instruments (continued)

Financial instrument risk

The Company's financial assets and liabilities are exposed to various risk factors that may affect the fair value presentation of the amount ultimately received or paid on settlement of its assets and liabilities.

A summary of the major financial instrument risks and the Company's approach to management of these risks are outlined below:

(a) Interest rate risk

The Company's bank indebtedness is at a floating interest rate and as such the Company is exposed to interest rate risk. The Company's obligations under finance leases are at fixed interest rates. A significant portion of long term debt is at interest rates which are fixed or are non-interest bearing. As such, the Company's exposure to fluctuations in interest rates is not considered material.

(b) Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on transactions incurred in US dollars. During the year ended September 30, 2015, the Company recorded a $234,641 gain on foreign currency. The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the year ended September 30, 2015, the Company recorded revenue of $8,693,205 from contracts denominated in US dollars. A 5% change in the U.S. dollar exchange rate would result in a $434,660 impact on revenue recognized.

As at the September 30, 2015, the Company held receivables of $996,002 denominated in US dollars. A 5% change in the US dollar exchange rate would result in a $49,800 impact on revenue recognized.

(c) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. The Company's maximum exposure to credit risk corresponds to the carrying value of accounts receivable and unbilled work in progress. Three customers accounted for 50% of revenue (September 30, 2014 – two customers - 32%) and six customers accounted for 80% of the Company's trade receivables at September 30, 2015 (September 30, 2014 – two customers - 34%).

An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The allowance for doubtful accounts at September 30, 2015 was $8,374 (September 30, 2014 - $62,857). At September 30, 2015 the Company's trade accounts receivable included amounts over 90 days old totaling $130,289 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (September 30, 2014 - $145,272).

(d) Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains a committed credit facility to ensure that it has sufficient funds to meet current and foreseeable future financial requirements at a reasonable cost. The contractual maturities (including interest payments where applicable) of the Company's financial liabilities are summarized below:

		1 year	**1-5 years**	**>5 years**
Accounts payable and accruals	$	2,995,067	-	-
Obligations under finance leases		31,960	11,781	-
Long term debt		2,158,046	5,991,598	346,082
	$	5,185,073	6,003,379	346,082

In Canadian dollars

23. Capital management

The Company's objectives in terms of capital management are to maintain a sound financial position and to ensure financial flexibility in order to maintain its capacity for growth. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company's capital is composed of long term debt, other financial liabilities, and shareholders equity. The primary uses of its capital are to increase working capital to support business growth, support research and development activities, and finance acquisitions.

The Company believes that current cash balances and future funds generated through its operations will be sufficient to meet cash requirements currently and for the foreseeable future. If the Company were to experience a significant reduction in its cash flows from operations, it currently has a variety of options for raising capital for short-term cash needs, including an unused demand operating line of credit facility(Note 11). There were no changes in the Company's approach to capital management during the year ended September 30, 2015.

The Company is not subject to any externally imposed capital requirements.

24. 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 110 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:

		2015			
		Bluedrop Learning Networks	**Bluedrop Training and Simulation**	**Corporate and Other**	**Total**
Revenue	$	3,754,460	17,418,392	-	21,172,852
Direct costs		1,993,372	9,906,588	-	11,899,960
Gross profit		1,761,088	7,511,804	-	9,272,892
Expenses					
Sales and marketing		1,422,746	623,079	10,276	2,056,101
General and administration		652,733	1,055,732	2,903,475	4,611,940
Research and development costs		-	126,582	-	126,582
Government assistance		20,042	(507,383)	(70,806)	(558,147)
Share-based compensation		32,026	24,433	138,384	194,843
Finance costs		-	-	1,997,525	1,997,525
Depreciation and amortization		462,522	418,869	16,116	897,507
Other (gains) and losses		-	-	(428,177)	(428,177)
		2,590,069	1,741,312	4,566,793	8,898,174
(Loss) earnings before income taxes	$	(828,981)	5,770,492	(4,566,793)	374,718

In Canadian dollars

24. Segment reporting (continued)

		2014			
		Bluedrop Learning Networks	**Bluedrop Training and Simulation**	**Corporate and Other**	**Total**
Revenue	$	3,553,973	11,839,342	-	15,393,315
Direct costs		1,489,394	7,948,528	-	9,437,922
Gross profit		2,064,579	3,890,814	-	5,955,393
Expenses					
Sales and marketing		1,610,550	885,349	17,678	2,513,577
General and administration		748,939	1,138,198	2,814,334	4,701,471
Acquisition and restructuring costs		186,000	70,417	1,855,786	2,112,203
Government assistance		(471,656)	(246,876)	(388,247)	(1,106,779)
Share based compensation		29,082	(14,890)	206,836	221,028
Finance costs		-	-	960,810	960,810
Depreciation and amortization		460,772	371,961	92,032	924,765
Other (gains) and losses		(182,725)	83,729	5,912	(93,084)
		2,380,962	2,287,888	5,565,141	10,233,991
(Loss) earnings before income taxes	$	(316,383)	1,602,926	(5,565,141)	(4,278,598)

25. Comparative figures

Comparative figures have been reclassified to conform with the September 30, 2015 financial statement presentation as follows:

(a) Aggregation of related party balances into accounts receivable, other long term assets and accounts payable.

(b) Reclassification of the current portion of other financial liabilities previously aggregated in accounts payable to other current liabilities.

(c) Reclassification of other financial liabilities previously aggregated in long term debt into other financial liabilities.

(d) Aggregation of lease obligations into other current liabilities and other long term liabilities.

(e) Reclassification of certain labour costs previously classified as general and administration to direct costs.

26. Subsequent events

(a) Unsecured convertible term note - 14%

On December 11, 2015 the company entered into an agreement to amend the maturity date of $3,000,000 of the unsecured convertible term note (Note 13) from December 30, 2016 to December 30, 2017.