

## **Bluedrop Performance Learning Inc.**

Condensed Consolidated Interim Financial Statements  
(Unaudited)

**Nine months ended June 30, 2016**

### **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 Chartered Professional Accountants of Canada 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**June 30 September 30**  
**2016 2015**

In Canadian dollars

**ASSETS**

## Current assets

Cash and cash equivalents	\$	1,242,006	3,196,631
Accounts receivable (Note 4)		6,755,692	4,613,225
Unbilled revenue		1,258,587	1,461,286
Other current assets		515,198	499,165

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9,771,483      9,770,307

## Other long-term assets

50,227      169,816

## Deferred tax assets

3,764,485      4,793,920

## Goodwill and other intangible assets (Note 5)

5,097,642      5,706,941

## Property and equipment (Note 6)

644,116      676,356

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\$ 19,327,953      21,117,340

**LIABILITIES AND EQUITY**

## Current liabilities

Accounts payable and accruals	\$	3,901,779	2,995,067
Deferred revenue		2,752,502	4,342,926
Deferred development funding (Note 7)		1,335,449	1,806,020
Current portion of long-term debt (Note 8)		1,442,630	1,426,660
Other current liabilities		367,686	347,549

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9,800,046      10,918,222

## Long-term debt (Note 8)

4,396,136      5,534,617

## Other financial liabilities (Note 9)

3,085,615      2,827,298

## Deferred revenue

430,677      905,404

## Deferred tax liabilities

519,826      571,808

## Other long-term liabilities

33,681      11,558

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18,265,981      20,768,907

## Equity

Share capital (Note 10)		5,004,696	5,053,021
Reserves		1,607,151	1,543,495
Deficit		(5,549,875)	(6,248,083)

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1,061,972      348,433

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\$ 19,327,953      21,117,340

Approved on Behalf of the Board

Derrick H. Rowe  
DirectorEmad Rizkalla  
Director

**Bluedrop Performance Learning Inc.**

Consolidated Statements of Comprehensive Income (Loss)

Unaudited

**Nine months ended June 30**

In Canadian dollars

	<b>Three Months Ended 30-Jun</b>		<b>Nine Months Ended June 30</b>	
	<b>2016</b>	<b>2015 (As Restated) (Note 3)</b>	<b>2016</b>	<b>2015 (As Restated) (Note 3)</b>
<b>Revenue</b>				
Services revenue	\$ 4,193,032	4,206,563	\$ 13,655,910	11,810,858
Product sales	1,703,203	1,145,926	6,387,516	3,233,583
	5,896,235	5,352,489	20,043,426	15,044,441
Direct costs	3,262,787	3,092,711	10,884,322	8,995,829
<b>Gross profit</b>	<b>2,633,448</b>	<b>2,259,778</b>	<b>9,159,104</b>	<b>6,048,612</b>
<b>Expenses</b>				
Sales and marketing	610,769	522,011	1,648,253	1,416,620
General and administration	1,196,155	1,343,415	3,781,479	3,450,453
Research and development costs	1,083,876	-	2,865,741	-
Government assistance and other funding (Note 11)	(1,350,285)	145,686	(3,021,343)	(292,513)
Share-based compensation (Note 10)	4,693	26,156	63,656	166,194
Finance costs (Note 12)	396,245	425,913	1,260,173	1,262,441
Depreciation and amortization	264,442	219,576	786,192	646,219
Other (gains) and losses	1,219	-	1,219	(428,177)
	2,207,114	2,682,757	7,385,370	6,221,237
<b>Profit (loss) before income taxes</b>	<b>426,334</b>	<b>(422,979)</b>	<b>1,773,734</b>	<b>(172,625)</b>
Income tax expense				
Current	-	-	-	-
Deferred	219,432	2,725	977,453	135,740
	219,432	2,725	977,453	135,740
<b>Net profit (loss) and comprehensive income (loss)</b>	<b>\$ 206,902</b>	<b>(425,704)</b>	<b>\$ 796,281</b>	<b>(308,365)</b>
<b>Net profit (loss) per share</b> (Note 10)				
Basic	0.0021	(0.0043)	0.0081	(0.0031)
Diluted	0.0020	(0.0043)	0.0080	(0.0031)
<b>Weighted average number of shares outstanding</b> (Note 10)				
Basic	98,805,757	98,986,609	98,805,757	98,986,609
Diluted	102,531,943	98,906,609	99,857,427	98,986,609

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**Bluedrop Performance Learning Inc.**

Consolidated Statements of Changes in Equity

Unaudited

**Nine months ended June 30**

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In Canadian dollars

	<b>Ordinary Common Shares</b>	<b>Share Capital</b>	<b>Share Option Reserve</b>	<b>Convertible Notes</b>	<b>Retained Earnings (Deficit) (As Restated) (Note 3)</b>	<b>Total</b>
<b>October 1, 2014</b>	98,986,609	\$ 5,053,021	1,120,884	201,466	(6,561,845)	(186,474)
Share-based compensation	-	-	166,194	-	-	166,194
Issue of convertible note, net of tax	-	-	-	26,302	-	26,302
Net loss and comprehensive loss	-	-	-	-	(308,365)	(308,365)
<b>June 30, 2015</b>	98,986,609	\$ 5,053,021	1,287,078	227,768	(6,870,210)	(302,343)
Share-based compensation	-	-	28,649	-	-	28,649
Net profit and comprehensive income	-	-	-	-	622,127	622,127
<b>September 30, 2015</b>	98,986,609	\$ 5,053,021	1,315,727	227,768	(6,248,083)	348,433
Share-based compensation	-	-	63,656	-	-	63,656
Repurchase of shares under normal course issuer bid (Note 10)	(966,500)	(48,325)	-	-	(98,073)	(146,398)
Net profit and comprehensive income	-	-	-	-	796,281	796,281
<b>June 30, 2016</b>	98,020,109	\$ 5,004,696	1,379,383	227,768	(5,549,875)	1,061,972

**Bluedrop Performance Learning Inc.**

Consolidated Statements of Cash Flows

Unaudited

**Nine months ended June 30****2016****2015**

In Canadian dollars

(As Restated)  
(Note 3)**Increase (decrease) in cash and cash equivalents****Operating activities**

Net profit (loss) for the period	\$	796,281	(308,365)
Items not affecting cash:			
Share-based compensation		63,656	166,194
Depreciation and amortization		786,192	646,219
Non-cash government assistance		-	(187,502)
Gain on settlement of long-term debt		-	(470,422)
Finance costs		1,260,173	1,262,441
Deferred taxes		977,453	135,740
Unrealized gain on derivative instruments		(3,632)	13,519
Loss on disposal of property and equipment		1,219	42,245
Interest paid		(30,664)	(48,216)
		3,850,678	1,251,853
Changes in non-cash working capital (Note 13)		(3,465,222)	727,774
<b>Net change in cash from operating activities</b>		385,456	1,979,627

**Investing activities**

Proceeds on disposal of property and equipment		-	11,500
Purchase of property and equipment, net of government assistance		(113,619)	(72,978)
Purchase of intangible assets, net of government assistance		-	(1,031,077)
		(113,619)	(1,092,555)
Changes in non-cash working capital (Note 13)		-	536,108
<b>Net change in cash from investing activities</b>		(113,619)	(556,447)

**Financing activities**

Repayment of obligations under finance leases		(26,361)	(39,845)
Advances of long-term debt		-	1,225,000
Repayment of long-term debt		(1,244,691)	(1,542,612)
Advances of other financial liabilities		-	257,701
Repayment of other financial liabilities		(202,705)	(217,614)
Decrease in other long-term liabilities		-	(28,167)
Repurchase of shares under normal course issuer bid		(146,398)	-
Interest paid		(606,307)	(474,983)
<b>Net change in cash from financing activities</b>		(2,226,462)	(820,520)

**Increase in cash and cash equivalents**

		(1,954,625)	602,660
Cash and cash equivalents (bank indebtedness), beginning of period		3,196,631	(1,067,600)
<b>Cash and cash equivalents (bank indebtedness), end of period</b>	\$	1,242,006	(464,940)

**Cash and cash equivalents (bank indebtedness) consists of:**

Cash on hand and in bank	\$	1,242,006	105,060
Bank indebtedness		-	(570,000)
	\$	1,242,006	(464,940)

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## **Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Nine months ended June 30, 2016**

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In Canadian dollars

### **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 condensed consolidated interim 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 cloud-based learning management solutions 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 Training and Simulation 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 August 23, 2016.

### **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, 2015. 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, 2015.

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.

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2016

In Canadian dollars

### 3. Restatement - 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:

	June 30 2015		June 30 2015
	Previously Reported	Adjustment	Restated
<b>Statement of financial position</b>			
Deferred tax assets	\$ 4,661,576	74,888	4,736,464
Goodwill and other intangible assets	5,713,124	(68,774)	5,644,350
Other financial liabilities	1,279,591	1,212,380	2,491,971
Provisions	1,253,062	(1,253,062)	-
Deficit	(6,677,642)	(192,568)	(6,870,210)
<b>Statement of comprehensive income (loss) (nine months ended June 30, 2015)</b>			
Government assistance	(304,393)	11,880	(292,513)
Finance costs	1,266,887	(4,446)	1,262,441
Depreciation and amortization	668,137	(21,918)	646,219
Income tax expense (Deferred)	131,684	4,056	135,740
Net loss	(318,793)	10,428	(308,365)
Net earnings (loss) per share - basic and diluted	(0.0032)	0.0001	(0.0031)
<b>Statement of comprehensive income (loss) (three months ended June 30, 2015)</b>			
Finance costs	427,395	(1,482)	425,913
Depreciation and amortization	226,882	(7,306)	219,576
Income tax recovery (Deferred)	264	2,461	2,725
Net loss	(432,031)	6,327	(425,704)
Net earnings per share - basic and diluted	(0.0044)	0.0001	(0.0043)

### 4. Accounts receivable

	June 30 2016	September 30 2015
Trade	\$ 3,589,189	3,286,298
Government assistance	2,396,058	1,301,514
Other	770,445	25,413
	\$ 6,755,692	4,613,225



## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2016

In Canadian dollars

### 5. Goodwill and other intangible assets

	Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
<b>Cost</b>						
October 1, 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
June 30, 2016	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
<b>Accumulated amortization and impairment losses</b>						
October 1, 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
Amortization	-	-	372,620	236,679	-	609,299
June 30, 2016	\$ 265,500	61,815	1,853,484	949,108	-	3,129,907
<b>Carrying values</b>						
October 1, 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
June 30, 2016	\$ -	-	1,288,619	1,955,892	1,853,131	5,097,642

During the nine months ended June 30, 2016, the Company commenced the commercialization phase of the *Bluedrop360™* Platform. No development expenditures, or related government assistance, have been included in Intangible assets during the nine months ended June 30, 2016.

### 6. Property and equipment

	Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
<b>Cost</b>					
October 1, 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
Additions	113,619	32,253	-	-	145,872
Disposals	-	(9,244)	-	-	(9,244)
June 30, 2016	\$ 654,917	805,885	46,967	193,956	1,701,725
<b>Accumulated depreciation</b>					
October 1, 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
Depreciation	90,480	74,347	-	12,066	176,893
Disposals	-	(8,025)	-	-	(8,025)
June 30, 2016	\$ 446,386	407,612	46,967	156,644	1,057,609
<b>Carrying values</b>					
October 1, 2014	\$ 257,516	591,390	1,494	65,467	915,867
September 30, 2015	\$ 185,392	441,586	-	49,378	676,356
June 30, 2016	\$ 208,531	398,273	-	37,312	644,116

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Nine months ended June 30, 2016**In Canadian dollars

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**7. Deferred development funding**

	<b>June 30</b>	<b>September 30</b>
	<b>2016</b>	<b>2015</b>
Opening balance	\$ 1,806,020	-
Funding provided	1,317,919	1,932,602
Development costs incurred	(1,788,490)	(126,582)
Ending balance	\$ 1,335,449	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. In addition, the Company has received \$225,000 of funding from the National Research Council associated with the project.

During the nine months ended June 30, 2016 the Company expensed \$1,788,490 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.

**8. Long-term debt**

	<b>Maturity</b>	<b>June 30</b>	<b>September 30</b>
		<b>2016</b>	<b>2015</b>
Unsecured convertible term notes - 14%	2013-2017	\$ 3,524,480	3,590,031
Unsecured term loan - 16%	2015-2016	-	600,000
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	436,032	474,942
Atlantic Canada Opportunities Agency - non-interest bearing	2012-2017	117,059	180,600
Government of Nova Scotia - 5%	2013-2021	1,031,443	1,145,761
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018	188,619	242,682
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019	258,290	295,567
Atlantic Canada Opportunities Agency - non-interest bearing	2016-2017	282,843	431,694
		5,838,766	6,961,277
less: current portion		(1,442,630)	(1,426,660)
Total long-term debt		\$ 4,396,136	5,534,617

(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 from December 30, 2016 to December 30, 2017.

(b) Unsecured term loan - 16%

On March 31, 2016 the company repaid the 16% unsecured term loan pursuant to an early repayment agreement entered into with the lender. The term loan had an original maturity date of August 2016.

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2016

In Canadian dollars

### 9. Other financial liabilities

	June 30 2016	September 30 2015
Unsecured royalty obligation	\$ 1,191,861	1,103,733
ACOA-AIF unsecured royalty obligation	2,231,117	2,020,928
	3,422,978	3,124,661
less: current portion	(337,363)	(297,363)
Total long-term other financial liabilities	\$ 3,085,615	2,827,298

#### (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 had 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 option was undrawn and expired at December 31, 2015.

Subsequent to the balance sheet date, the Company amended the terms of the unsecured royalty obligation (Note 17).

#### (b) ACOA-AIF unsecured Royalty obligation

To June 30, 2016 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 product related services resulting from the research funded.

### 10. 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, 2014	98,986,609	\$ 5,053,021
Issued and outstanding at September 30, 2015	98,986,609	5,053,021
Shares repurchased and cancelled under normal course issuer bid	(966,500)	(48,325)
Issued and outstanding at June 30, 2016	98,020,109	\$ 5,004,696

On March 31, 2016, the Company began a normal course issuer bid to acquire up to an aggregate of 4,949,330 outstanding common shares. The bid will expire on March 30, 2017. During the period ended June 30, 2016, 966,500 shares were purchased for \$146,398. The purchase resulted in a decrease to share capital and retained earnings of \$48,325 and \$98,073, respectively.

#### (c) Share options (2010 Stock Option Plan)

	Number of options	Exercise price per share
Outstanding at October 1, 2014	262,375	\$0.40
Expired	(25,000)	\$0.40
Outstanding and exercisable at September 30, 2015	237,375	\$0.40
Expired	(237,375)	\$0.40
Outstanding and exercisable at June 30, 2016	-	-

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Nine months ended June 30, 2016**

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In Canadian dollars

**10. Share capital** (continued)

(d) Share options (2011 Stock Option Plan)	Number of options	Exercise price per share
Outstanding at October 1, 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
Granted	700,000	\$0.11
Forfeitures	(570,843)	\$0.12
Expired	(1,535,401)	\$0.18
Outstanding at June 30, 2016	14,916,772	\$0.15
Exercisable at June 30, 2016	5,039,442	\$0.14

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 \$63,656 of share-based compensation expense in the nine months ended June 30, 2016 relating to the 2011 Stock Option Plan (June 30, 2015 - \$166,194). 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 nine months ended June 30, 2016:

Risk free interest rate	0.59%
Expected dividend yield	0%
Share price volatility	37%
Expected life	3.6 years
Average fair value of options granted	\$0.0307

As at the end of the period, 3,053,250 of the options outstanding were subject to restrictions which prevent them from being exercised and as such have been excluded from the amount of exercisable options above.

## (e) Employee share purchase plan

The Company has an 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 June 30, 2016 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:

	2016	2015
Common shares issued and outstanding at October 1	98,986,609	98,986,609
Weighted average shares purchased through normal course issuer bid	(180,852)	-
Weighted average number of shares used in basic earnings per share	98,805,757	98,986,609
Effect of share options on issue	1,051,670	-
Weighted average number of shares used in diluted earnings per share	99,857,427	98,986,609

At June 30, 2016, 10,777,630 share options (2015 - 14,668,987) and 24,166,667 shares on convertible notes (2015 - 24,166,667) were excluded from the calculation of diluted weighted average number of shares calculation because their effect would be anti-dilutive.

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2016

In Canadian dollars

### 11. Government assistance and other funding

	Three months ended June 30		Nine months ended June 30	
	2016	2015	2016	2015
Government assistance included in income:				
National Research Council	\$ 126,505	8,815	303,376	46,751
Invest New Brunswick	905	-	15,905	47,493
Research & Development Corporation	121,397	-	237,400	-
Scientific Research and Experimental Development Credits	-	(334,456)	-	(334,456)
Digital Media Tax Credits	521,500	179,000	901,172	345,222
Discounts on below-market interest rate financial liabilities	-	955	-	187,503
Other indirect government assistance included in income:				
The Boeing Company - Funding under the Government of Canada's IRB Policy	579,978	-	1,563,490	-
	\$ 1,350,285	(145,686)	3,021,343	292,513
Government assistance included in intangible assets:				
National Research Council	\$ -	32,263	-	163,311
Scientific Research and Experimental Development Credits	-	(369,317)	-	(369,317)
Discounts on below-market interest rate financial liabilities	-	9,342	-	110,367
	\$ -	(327,712)	-	(95,639)

### 12. Finance costs

	Three months ended June 30		Nine months ended June 30	
	2016	2015	2016	2015
Interest on long-term debt	\$ 147,532	174,014	494,045	511,634
Interest on finance lease obligations	1,129	765	2,035	2,575
Short-term interest and bank charges	6,491	11,621	13,503	40,977
Accretion of long-term debt	70,695	90,520	232,407	271,327
Accretion of other financial liabilities	169,210	146,312	501,022	428,690
Other financing costs	1,188	2,681	17,161	7,238
Total finance costs	\$ 396,245	425,913	1,260,173	1,262,441

### 13. Changes in non-cash working capital

	2016	2015
Accounts receivable	\$ (2,142,467)	1,415,302
Unbilled revenue	202,699	(271,502)
Other current assets	(16,033)	99,859
Accounts payable and accruals	906,712	5,717
Other long-term assets	119,589	-
Deferred revenue	(2,065,151)	14,506
Deferred development funding	(470,571)	-
	\$ (3,465,222)	1,263,882
Changes in non-cash working capital related to:		
Operating activities	(3,465,222)	727,774
Investing activities	-	536,108
	\$ (3,465,222)	1,263,882

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Nine months ended June 30, 2016**

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In Canadian dollars

**14. Expenses classified by nature**

Certain expenses are classified by function in the statement of comprehensive income. 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:

	Three months ended June 30		Nine months ended June 30	
	2016	2015	2016	2015
Salaries and other labour costs	\$ 4,140,684	3,468,747	12,020,485	9,898,280
Materials, services and supplies	1,363,321	806,913	4,975,941	2,102,781
Travel and living	126,355	164,348	391,188	350,439
Occupancy	191,596	166,767	573,593	557,968
Professional fees	71,277	126,528	400,963	568,712
Other costs	260,354	224,834	817,625	384,722
Total expenses classified by nature	\$ 6,153,587	4,958,137	19,179,795	13,862,902

**15. 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 June 30, 2016, the total amount receivable was \$169,816 (September 30, 2015 - \$169,816). \$119,589 has been classified as current.

(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 8). During the nine months ended June 30, 2016, the Company incurred \$48,132 (2015 - \$37,625) of finance charges associated with the term loan. The loan was repaid in full on March 31, 2016.

(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. During the nine months ended June 30, 2016, the Company incurred \$211,680 (2015 - \$196,560) 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.

	Three months ended June 30		Nine months ended June 30	
	2016	2015	2016	2015
Fees, salaries and benefits to key management personnel	172,925	179,150	642,406	574,850
Share based compensation to key management personnel	10,733	9,568	40,679	96,160

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Nine months ended June 30, 2016**

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. 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 is as follows:

	<b>Nine months ended June 30, 2016</b>			
	<b>Bluedrop Learning Networks</b>	<b>Bluedrop Training and Simulation</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenue	\$ 3,532,148	16,511,278	-	20,043,426
Direct costs	1,573,928	9,310,394	-	10,884,322
<b>Gross profit</b>	<b>1,958,220</b>	<b>7,200,884</b>	<b>-</b>	<b>9,159,104</b>
<b>Expenses</b>				
Sales and marketing	1,227,274	411,558	9,421	1,648,253
General and administration	491,227	975,100	2,315,152	3,781,479
Research and development costs	1,077,250	1,788,491	-	2,865,741
Government assistance and other funding	(644,566)	(2,376,777)	-	(3,021,343)
Share-based compensation	14,864	15,175	33,617	63,656
Finance costs	-	-	1,260,173	1,260,173
Depreciation and amortization	464,550	309,942	11,700	786,192
Other gains and losses	-	-	1,219	1,219
	2,630,599	1,123,489	3,631,282	7,385,370
<b>(Loss) earnings before income taxes</b>	<b>\$ (672,379)</b>	<b>6,077,395</b>	<b>(3,631,282)</b>	<b>1,773,734</b>

	<b>Nine months ended June 30, 2015</b>			
	<b>Bluedrop Learning Networks</b>	<b>Bluedrop Training and Simulation</b>	<b>Corporate and Other</b>	<b>Total</b>
Revenue	\$ 2,611,753	12,432,688	-	15,044,441
Direct costs	1,430,890	7,564,939	-	8,995,829
<b>Gross profit</b>	<b>1,180,863</b>	<b>4,867,749</b>	<b>-</b>	<b>6,048,612</b>
<b>Expenses</b>				
Sales and marketing	948,784	467,274	562	1,416,620
General and administration	483,615	759,021	2,207,817	3,450,453
Government assistance and other funding	21,043	(239,699)	(73,857)	(292,513)
Share based compensation	27,442	19,295	119,457	166,194
Finance costs	-	-	1,262,441	1,262,441
Depreciation and amortization	316,796	317,034	12,389	646,219
Other (gains) and losses	-	-	(428,177)	(428,177)
	1,797,680	1,322,925	3,100,632	6,221,237
<b>(Loss) earnings before income taxes</b>	<b>\$ (616,817)</b>	<b>3,544,824</b>	<b>(3,100,632)</b>	<b>(172,625)</b>

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2016

In Canadian dollars

### 16. Segment reporting (continued)

	Three months ended June 30, 2016			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,146,096	4,750,139	-	5,896,235
Direct costs	500,996	2,761,791	-	3,262,787
<b>Gross profit</b>	645,100	1,988,348	-	2,633,448
<b>Expenses</b>				
Sales and marketing	404,761	201,323	4,685	610,769
General and administration	144,772	319,443	731,940	1,196,155
Research and development costs	378,898	704,978	-	1,083,876
Government assistance and other funding	(436,692)	(913,593)	-	(1,350,285)
Share-based compensation	4,509	4,354	(4,170)	4,693
Finance costs	-	-	396,245	396,245
Depreciation and amortization	155,392	104,932	4,118	264,442
	651,640	421,437	1,132,818	2,205,895
<b>(Loss) earnings before income taxes</b>	\$ (6,540)	1,566,911	(1,132,818)	427,553

	Three months ended June 30, 2015			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 937,078	4,415,411	-	5,352,489
Direct costs	527,959	2,564,752	-	3,092,711
<b>Gross profit</b>	409,119	1,850,659	-	2,259,778
<b>Expenses</b>				
Sales and marketing	376,518	177,845	(32,352)	522,011
General and administration	195,816	274,850	872,749	1,343,415
Government assistance and other funding	219,163	(73,477)	-	145,686
Share based compensation	3,828	5,562	16,766	26,156
Finance costs	-	-	425,913	425,913
Depreciation and amortization	112,662	103,170	3,744	219,576
	907,987	487,950	1,286,820	2,682,757
<b>(Loss) earnings before income taxes</b>	\$ (498,868)	1,362,709	(1,286,820)	(422,979)

### 17. Subsequent event

Subsequent to the balance sheet date, the Company amended certain terms of the unsecured royalty obligation (Note 9). As part of the amendment, in exchange for an increased monthly minimum royalty for the next 11 months, Bluedrop will now have the right to extinguish the royalty at any time upon payment of a fixed buyout amount.