

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

Three months ended December 31, 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.

Contents

Consolidated Statements of Financial Position	1
Consolidated Statements of Comprehensive Income	2
Consolidated Statements of Changes in Equity	3
Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Interim Financial Statements	5

Bluedrop Performance Learning Inc.Consolidated Statements of Financial Position
Unaudited**December 31** **September 30**
2016 **2016**

In Canadian dollars

ASSETS

Current assets

Cash and cash equivalents	\$	1,147,162	3,111,352
Restricted cash (Note 4)		3,000,000	-
Accounts receivable (Note 5)		5,779,097	4,639,550
Unbilled revenue		265,716	81,029
Other current assets (Note 6)		1,103,283	1,145,560

11,295,258 8,977,491

Other long-term assets		550,226	550,226
Restricted cash (Note 4)		-	3,000,000
Deferred tax assets		4,314,068	4,375,509
Goodwill and other intangible assets (Note 7)		4,328,718	4,510,113
Property and equipment (Note 8)		531,259	593,164

\$ 21,019,529 22,006,503

LIABILITIES AND EQUITY

Current liabilities

Accounts payable and accruals	\$	2,772,581	3,377,526
Deferred revenue		4,047,719	3,507,748
Deferred development funding (Note 9)		455,203	822,809
Current portion of long-term debt (Note 10)		4,214,869	1,461,175
Other current liabilities		557,031	648,802

12,047,403 9,818,060

Long-term debt (Note 10)		3,659,763	7,094,321
Other financial liabilities (Note 11)		3,237,633	3,096,362
Deferred revenue		195,227	117,812
Deferred tax liabilities		503,441	502,498
Other long-term liabilities		29,851	31,789

19,673,318 20,660,842

Equity

Share capital (Note 12)		5,604,525	5,087,066
Reserves		1,611,086	1,619,718
Deficit		(5,869,400)	(5,361,123)

1,346,211 1,345,661

\$ 21,019,529 22,006,503

Approved on Behalf of the Board

Derrick H. Rowe
DirectorEmad Rizkalla
Director

Bluedrop Performance Learning Inc.

Consolidated Statements of Comprehensive Income (Loss)

Unaudited

Three months ended December 31**2016****2015**

In Canadian dollars

**(As Restated)
(Note 3)****Revenue**

Services revenue	\$	3,898,182	4,619,476
Product sales		821,266	951,720
		4,719,448	5,571,196
Direct costs		2,590,921	2,628,929

Gross profit**2,128,527** **2,942,267****Expenses**

Sales and marketing		457,379	496,361
General and administration		1,193,653	1,193,411
Research and development costs		728,357	708,961
Government assistance and other funding (Note 13)		(657,847)	(693,494)
Share-based compensation (Note 12)		18,855	29,457
Finance costs (Note 14)		435,548	430,646
Depreciation and amortization		261,697	260,638
Other (gains) and losses		45,585	(18,214)

2,483,227 **2,407,766****Profit (loss) before income taxes****(354,700)** **534,501**

Income tax expense

Current		-	-
Deferred		62,384	373,331

62,384 **373,331****Net profit (loss) and comprehensive income (loss)****\$ (417,084)** **161,170****Net profit (loss) per share** (Note 12)

Basic	(0.0043)	0.0016
Diluted	(0.0043)	0.0016

**Weighted average number of
shares outstanding** (Note 12)

Basic	98,043,966	98,986,609
Diluted	98,043,966	99,106,051

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Three months ended December 31In Canadian dollars

	Ordinary Common Shares	Share Capital	Share Option Reserve	Convertible Notes	(Deficit) (As Restated Note 3)	Total
October 1, 2015	98,986,609	\$ 5,053,021	1,315,727	227,768	(6,248,083)	348,433
Share-based compensation	-	-	29,457	-	-	29,457
Net profit and comprehensive income	-	-	-	-	161,170	161,170
December 31, 2015	98,986,609	\$ 5,053,021	1,345,184	227,768	(6,086,913)	539,060
Share-based compensation	-	-	52,611	-	-	52,611
Repurchase of shares under normal course issuer bid (Note 12)	(1,436,000)	(71,800)	-	-	(155,530)	(227,330)
Conversion of debenture (Note 10)	666,667	105,845	-	(5,845)	-	100,000
Net profit and comprehensive income	-	-	-	-	881,320	881,320
September 30, 2016	98,217,276	\$ 5,087,066	1,397,795	221,923	(5,361,123)	1,345,661
Exercise of share options	30,000	-	18,855	3,198	-	22,053
Repurchase of shares under normal course issuer bid (Note 12)	(764,500)	(38,225)	-	-	(91,193)	(129,418)
Conversion of debenture (Note 10)	3,500,000	555,684	-	(30,685)	-	524,999
Net profit (loss) and comprehensive income (loss)	-	-	-	-	(417,084)	(417,084)
December 31, 2016	100,982,776	\$ 5,604,525	1,416,650	194,436	(5,869,400)	1,346,211

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Three months ended December 31**2016****2015**

In Canadian dollars

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

Net profit (loss) for the period	\$	(417,084)	161,170
Items not affecting cash:			
Share-based compensation		18,855	29,457
Depreciation and amortization		261,697	260,638
Finance costs		435,548	430,646
Deferred taxes		62,384	373,331
Unrealized gain on derivative instruments		73,249	(19,535)
Interest paid		(11,442)	(4,936)
		423,207	1,230,771
Changes in non-cash working capital (Note 15)		(1,637,122)	(1,721,890)
Net change in cash from operating activities		(1,213,915)	(491,119)

Investing activities

Purchase of property and equipment, net of government assistance		(18,397)	(48,840)
Net change in cash from investing activities		(18,397)	(48,840)

Financing activities

Repayment of obligations under finance leases		(3,579)	(9,994)
Repayment of long-term debt		(319,972)	(123,230)
Repayment of other financial liabilities		(219,250)	(58,336)
Share options exercised		3,198	-
Repurchase of shares under normal course issuer bid		(129,418)	-
Interest paid		(62,857)	(296,945)
Net change in cash from financing activities		(731,878)	(488,505)

Decrease in cash and cash equivalents		(1,964,190)	(1,028,464)
Cash and cash equivalents, beginning of period		3,111,352	3,196,631
Cash and cash equivalents, end of period	\$	1,147,162	2,168,167

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2016

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 March 1, 2017.

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, 2016. 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, 2016.

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

Three months ended December 31, 2016

In Canadian dollars

3. Restatement

During the fourth quarter of the fiscal year ended September 30, 2016, the Company determined that one project did not meet the requirements for revenue recognition throughout the first three quarters of fiscal 2016. As a result, management has adjusted the financial results for the first three quarters of fiscal 2016 by removing the related revenues and recording the expenditures incurred as a current asset at cost. The financial impact has been accounted for on a retroactive basis as follows:

	December 31 2015		December 31 2015
	Previously Reported	Adjustment	Restated
Statement of financial position			
Unbilled revenue	\$ 1,312,588	(180,191)	1,132,397
Other current assets	477,201	75,698	552,899
Deferred tax assets	4,370,869	32,393	4,403,262
Deficit	(6,014,813)	(72,100)	(6,086,913)
Statement of comprehensive income (loss)			
Service revenue	4,799,667	(180,191)	4,619,476
Direct costs	2,704,627	(75,698)	2,628,929
Income tax expense (Deferred)	405,724	(32,393)	373,331
Net profit and comprehensive income	233,270	(72,100)	161,170
Net profit per share - basic and diluted	0.0024	(0.0008)	0.0016

4. Restricted cash

At September 30, 2016, the Company raised term debt to preserve working capital for growth and to fund its maturing debt obligations during the next year. Proceeds of the term debt are invested in a Guaranteed Investment Certificate and held by the Royal Bank of Canada under a cash collateral agreement as additional security for the term loan until a decision is made regarding conversion or repayment of the unsecured convertible term note (Note 10) which is due December 30, 2017. The proceeds of the term loan are presented as restricted cash in current assets on the consolidated statements of financial position.

5. Accounts receivable

	December 31 2016	September 30 2016
Trade	\$ 3,304,660	2,159,010
Government assistance	2,451,890	2,451,855
Other	22,547	28,685
	<hr/> \$ 5,779,097	<hr/> 4,639,550

6. Other current assets

	December 31 2016	September 30 2016
Prepaid expenses	\$ 489,774	637,467
Work in progress	493,920	388,504
Current portion of share purchase loan	119,589	119,589
	<hr/> \$ 1,103,283	<hr/> 1,145,560

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2016

In Canadian dollars

7. Goodwill and other intangible assets

	Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost						
October 1, 2015	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
September 30, 2016	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
December 31, 2016	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
Accumulated amortization and impairment losses						
October 1, 2015	\$ 265,500	61,815	1,480,864	712,429	-	2,520,608
Amortization	-	-	560,891	315,571	-	876,462
Impairment loss	-	-	320,366	-	-	320,366
September 30, 2016	\$ 265,500	61,815	2,362,121	1,028,000	-	3,717,436
Amortization	-	-	102,502	78,893	-	181,395
December 31, 2016	\$ 265,500	61,815	2,464,623	1,106,893	-	3,898,831
Carrying values						
October 1, 2015	\$ -	-	1,661,239	2,192,571	1,853,131	5,706,941
September 30, 2016	\$ -	-	779,982	1,877,000	1,853,131	4,510,113
December 31, 2016	\$ -	-	677,480	1,798,107	1,853,131	4,328,718

8. Property and equipment

	Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost					
October 1, 2015	\$ 541,298	782,876	46,967	193,956	1,565,097
Additions	119,985	32,254	-	-	152,239
Disposals	-	(9,244)	-	-	(9,244)
September 30, 2016	\$ 661,283	805,886	46,967	193,956	1,708,092
Additions	18,397	-	-	-	18,397
Disposals	-	-	-	-	-
December 31, 2016	\$ 679,680	805,886	46,967	193,956	1,726,489
Accumulated depreciation					
October 1, 2015	\$ 355,906	341,290	46,967	144,578	888,741
Depreciation	119,091	99,033	-	16,088	234,212
Disposals	-	(8,025)	-	-	(8,025)
September 30, 2016	\$ 474,997	432,298	46,967	160,666	1,114,928
Depreciation	29,338	46,942	-	4,022	80,302
Disposals	-	-	-	-	-
December 31, 2016	\$ 504,335	479,240	46,967	164,688	1,195,230
Carrying values					
October 1, 2015	\$ 185,392	441,586	-	49,378	676,356
September 30, 2016	\$ 186,286	373,588	-	33,290	593,164
December 31, 2016	\$ 175,345	326,646	-	29,268	531,259

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2016

In Canadian dollars

9. Deferred development funding

	December 31	September 30
	2016	2016
Opening balance	\$ 822,809	1,806,020
Funding provided	48,579	1,417,687
Development costs incurred	(416,185)	(2,400,898)
Ending balance	\$ 455,203	822,809

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 three months ended December 31, 2016, the Company expensed \$416,185 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.

10. Long-term debt

	Maturity	December 31	September 30
		2016	2016
Unsecured convertible term note - 14%	2013-2017	\$ 3,038,343	3,442,909
Term loan - 4.09%	2016-2019	2,940,759	3,000,000
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	390,709	417,986
Government of Nova Scotia - 5%	2013-2021	953,532	992,663
Atlantic Canada Opportunities Agency - non-interest bearing	2012-2017	71,984	94,802
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018	150,269	169,683
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019	230,514	244,712
Atlantic Canada Opportunities Agency - non-interest bearing	2016-2017	98,522	192,741
		7,874,632	8,555,496
less: current portion		(4,214,869)	(1,461,175)
Total long-term debt		\$ 3,659,763	7,094,321

(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. The full amount of this note has been presented as current.

On September 14, 2016, \$100,000 of the unsecured convertible term notes were converted into common shares at a price of \$0.15 per share for a total issuance of 666,667 common shares. During the three months ended December 31, 2016, \$525,000 of additional unsecured convertible term notes were converted into common shares at a price of \$0.15 per share for a total issuance of 3,500,000 common shares.

(b) Term loan - 4.09%

On September 30, 2016, the Company secured a \$3.0 million term loan with the Royal Bank of Canada. The loan bears interest at 4.09% per annum and matures on September 30, 2019. Monthly blended payments on the loan are \$30,000 per month in the first twelve months and \$120,357 per month during the following twenty-four months. The loan is secured by the \$3.0 million Guaranteed Investment Certificate (Note 4) and the general security agreement over other assets of the Company.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2016

In Canadian dollars

11. Other financial liabilities

	December 31 2016	September 30 2016
Unsecured royalty obligation	\$ 1,862,637	1,845,647
ACOA-AIF unsecured royalty obligation	1,830,995	1,870,095
	3,693,632	3,715,742
less: current portion	(455,999)	(619,380)
Total long-term other financial liabilities	\$ 3,237,633	3,096,362

(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 July 28, 2016, the Company amended the terms of the unsecured royalty obligation. The amended terms include a buyout option allowing the Company to extinguish 100% of all amounts owing upon payment of two times the royalty acquisition amount. Under the amended terms, the Company will pay a minimum royalty of \$40,000 per month until May 31, 2017, after which time it will pay the lender 1% of monthly revenue in perpetuity.

(b) ACOA-AIF unsecured Royalty obligation

To December 31, 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.

12. 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, 2015	98,986,609	5,053,021
Shares repurchased and cancelled under normal course issuer bid	(1,436,000)	(71,800)
Shares issued upon exercise of convertible debenture	666,667	105,845
Issued and outstanding at September 30, 2016	98,217,276	5,087,066
Shares repurchased and cancelled under normal course issuer bid	(764,500)	(38,225)
Shares issued upon exercise of share options	30,000	-
Shares issued upon exercise of convertible debenture	3,500,000	555,684
Issued and outstanding at December 31, 2016	100,982,776	5,604,525

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. The company accounts for purchases under the constructive retirement method whereby shares are treated as cancelled upon repurchase in line with managements intention to subsequently cancel the purchased shares within a reasonable period.

During the three months ended December 31, 2016, 764,500 shares were purchased for \$129,418. The purchase resulted in a decrease to share capital and retained earnings of \$38,225 and \$91,193, respectively. As of December 31, 2016, 2,200,500 common shares had been repurchased under the plan at an average price of \$0.16 per share.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2016In Canadian dollars

12. Share capital (continued)

(c) Share options	Number of options	Exercise price per share
Outstanding at October 1, 2015	16,560,391	\$0.15
Granted	800,000	\$0.12
Forfeitures	(974,178)	\$0.12
Expired	(1,782,776)	\$0.18
Outstanding at September 30, 2016	14,603,437	\$0.15
Forfeitures	-	-
Expired	(114,335)	\$0.21
Exercised	(30,000)	\$0.11
Outstanding at December 31, 2016	14,459,102	\$0.15
Exercisable at December 31, 2016	5,239,367	\$0.14

Pursuant to the 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 \$18,855 of share-based compensation expense in the three months ended December 31, 2016, relating to the Stock Option Plan (December 31, 2015 - \$29,457). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options granted in the year ended September 30, 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	\$0.0329

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.

(d) 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 December 31, 2016, no shares were outstanding under the plan.

(e) 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	98,217,276	98,986,609
Weighted average shares purchased through normal course issuer bid	(173,310)	-
Weighted average number of shares used in basic earnings per share	98,043,966	98,986,609
Effect of share options on issue	-	119,442
Weighted average number of shares used in diluted earnings per share	98,043,966	99,106,051

At December 31, 2016, 14,459,102 share options (2015 - 15,141,298) and 20,000,000 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

Three months ended December 31, 2016

In Canadian dollars

13. Government assistance and other funding

	2016	2015
Government assistance included in income:		
National Research Council	\$ 48,579	93,026
Research & Development Corporation	9,378	-
Invest New Brunswick	-	15,000
Digital Media Tax Credits	232,284	167,537
Other indirect government assistance included in income:		
The Boeing Company - Funding under the Government of Canada's IRB Policy	367,606	417,931
	<u>\$ 657,847</u>	<u>693,494</u>

14. Finance costs

	2016	2015
Interest on long-term debt	\$ 173,036	174,424
Accretion of other financial liabilities	197,141	164,867
Accretion of long-term debt	52,985	85,880
Short-term interest and bank charges	11,043	1,352
Other financing costs	399	3,585
Interest on finance lease obligations	944	538
Total finance costs	<u>\$ 435,548</u>	<u>430,646</u>

15. Changes in non-cash working capital

	2016	2015
Accounts receivable	\$ (1,139,547)	(2,207,083)
Unbilled revenue	(184,687)	328,889
Other current assets	42,277	(53,734)
Accounts payable and accruals	(604,945)	(388,412)
Deferred revenue	617,386	1,016,381
Deferred development funding	(367,606)	(417,931)
	<u>\$ (1,637,122)</u>	<u>(1,721,890)</u>

16. 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:

	2016	2015
Salaries and other labour costs	\$ 3,761,526	3,580,294
Materials, services and supplies	585,145	743,519
Travel and living	136,962	123,683
Occupancy	194,933	195,290
Professional fees	130,952	196,455
Other costs	160,792	188,421
Total expenses classified by nature	<u>4,970,310</u>	<u>5,027,662</u>

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2016In Canadian dollars

17. 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 December 31, 2016, the total amount receivable was \$169,816 (September 30, 2016 - \$169,816), \$119,589 of this amount has been classified as current.

(b) 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 three months ended December 31, 2016, the Company incurred \$70,560 (2015 - \$70,560) of rent expense associated with the lease.

(c) 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.

	<u>2016</u>	<u>2015</u>
Fees, salaries and benefits to key management personnel	172,925	298,525
Share based compensation to key management personnel	9,933	15,633

18. 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:

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2016

In Canadian dollars

18. Segment reporting (continued)

	Three months ended December 31, 2016			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,398,102	3,321,346	-	4,719,448
Direct costs	639,908	1,951,013	-	2,590,921
Gross profit	758,194	1,370,333	-	2,128,527
Expenses				
Sales and marketing	317,257	140,027	95	457,379
General and administration	127,815	324,580	741,258	1,193,653
Research and development costs	312,172	416,185	-	728,357
Government assistance and other funding	(64,378)	(593,469)	-	(657,847)
Share-based compensation	3,456	2,583	12,816	18,855
Finance costs	-	-	435,548	435,548
Depreciation and amortization	135,563	122,889	3,245	261,697
Other (gains) and losses	-	-	45,585	45,585
	831,885	412,795	1,238,547	2,483,227
(Loss) earnings before income taxes	\$ (73,691)	957,538	(1,238,547)	(354,700)

	Three months ended December 31, 2015			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,160,438	4,410,758	-	5,571,196
Direct costs	529,967	2,098,962	-	2,628,929
Gross profit	630,471	2,311,796	-	2,942,267
Expenses				
Sales and marketing	373,692	121,572	1,097	496,361
General and administration	141,255	308,648	743,508	1,193,411
Research and development costs	291,030	417,931	-	708,961
Government assistance and other funding	(108,026)	(585,468)	-	(693,494)
Share based compensation	4,848	5,274	19,335	29,457
Finance costs	-	-	430,646	430,646
Depreciation and amortization	154,520	102,350	3,768	260,638
Other (gains) and losses	-	-	(18,214)	(18,214)
	857,319	370,307	1,180,140	2,407,766
(Loss) earnings before income taxes	\$ (226,848)	1,941,489	(1,180,140)	534,501

19. Comparative figures

Comparative figures have been reclassified to conform with the December 31, 2016 financial statement presentation. Specifically, Foreign exchange gains and losses, previously aggregated in general and administration expenses, have been reclassified to Other (gains) and losses

20. Subsequent event

On February 23, 2017, the Company secured a \$3.0 million funding contribution under the Atlantic Canada Opportunities Agency Business Development Program to assist with working capital requirements for growth initiatives of the Company. The unsecured, non-interest bearing loan is repayable in 60 monthly instalments of \$50,000 commencing October 1, 2018. As of March 1, 2017, the Company has not drawn any contributions under the program.