

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

Six months ended March 31, 2017

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**March 31 September 30**
2017 2016

In Canadian dollars

ASSETS

Current assets

Cash and cash equivalents	\$ 2,076,622	3,111,352
Restricted cash (Note 4)	3,000,000	-
Accounts receivable (Note 5)	5,934,983	4,639,550
Unbilled revenue	436,583	81,029
Other current assets (Note 6)	1,202,454	1,145,560

12,650,642 8,977,491

Other long-term assets	617,737	550,226
Restricted cash (Note 4)	-	3,000,000
Deferred tax assets	3,960,765	4,375,509
Goodwill and other intangible assets (Note 7)	4,153,373	4,510,113
Property and equipment (Note 8)	477,793	593,164

\$ 21,860,310 22,006,503

LIABILITIES AND EQUITY

Current liabilities

Accounts payable and accruals	\$ 3,182,470	3,377,526
Deferred revenue	3,578,387	3,507,748
Deferred development funding (Note 9)	138,573	822,809
Current portion of long-term debt (Note 10)	4,227,527	1,461,175
Other current liabilities	411,397	648,802

11,538,354 9,818,060

Long-term debt (Note 10)	4,413,785	7,094,321
Other financial liabilities (Note 11)	3,393,428	3,096,362
Deferred revenue	195,227	117,812
Deferred tax liabilities	485,462	502,498
Other long-term liabilities	28,047	31,789

20,054,303 20,660,842

Equity

Share capital (Note 12)	5,616,473	5,087,066
Reserves	1,623,130	1,619,718
Deficit	(5,433,596)	(5,361,123)

1,806,007 1,345,661

\$ 21,860,310 22,006,503

Approved on Behalf of the Board

Derrick H. Rowe
DirectorEmad Rizkalla
Director

Bluedrop Performance Learning Inc.Consolidated Statements of Comprehensive Income
Unaudited**Six months ended March 31**

In Canadian dollars

	Three Months Ended March 31		Six Months Ended March 31	
	2017	2016 (As restated Note 3)	2017	2016 (As restated Note 3)
Revenue				
Services revenue	4,307,034	4,362,690	\$ 8,205,216	8,982,167
Product sales	2,552,400	3,732,593	3,373,666	4,684,313
	6,859,434	8,095,283	11,578,882	13,666,480
Direct costs	4,338,001	4,790,660	6,928,922	7,419,589
Gross profit	2,521,433	3,304,623	4,649,960	6,246,891
Expenses				
Sales and marketing	399,193	541,123	856,572	1,037,484
General and administration	1,104,354	1,202,519	2,298,007	2,395,930
Research and development costs	650,550	1,072,904	1,378,907	1,781,865
Government assistance and other funding (Note 13)	(1,045,721)	(977,564)	(1,703,568)	(1,671,058)
Share-based compensation (Note 12)	15,241	29,506	34,096	58,963
Finance costs (Note 14)	412,393	433,282	847,941	863,928
Depreciation and amortization	255,287	261,112	516,984	521,750
Other (gains) and losses	(40,992)	207,608	4,593	189,394
	1,750,305	2,770,490	4,233,532	5,178,256
Profit before income taxes	771,128	534,133	416,428	1,068,635
Income tax expense				
Current	-	-	-	-
Deferred	335,324	298,272	397,708	671,604
	335,324	298,272	397,708	671,604
Net profit and comprehensive income	435,804	235,861	18,720	397,031
Net profit per share (Note 12)				
Basic	0.0043	0.0024	0.0002	0.0040
Diluted	0.0041	0.0024	0.0002	0.0040
Weighted average number of shares outstanding (Note 12)				
Basic	100,975,980	98,986,609	99,538,402	98,986,609
Diluted	106,204,076	99,645,555	104,108,269	99,357,561

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Six months ended March 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	-	-	58,963	-	-	58,963
Net profit and comprehensive income	-	-	-	-	397,031	397,031
March 31, 2016	98,986,609	\$ 5,053,021	1,374,690	227,768	(5,851,052)	804,427
Share-based compensation	-	-	23,105	-	-	23,105
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	-	-	-	-	645,459	645,459
September 30, 2016	98,217,276	\$ 5,087,066	1,397,795	221,923	(5,361,123)	1,345,661
Share-based compensation	-	-	34,096	-	-	34,096
Exercise of share options	155,000	11,948	-	-	-	11,948
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	-	(30,684)	-	525,000
Net profit and comprehensive income	-	-	-	-	18,720	18,720
March 31, 2017	101,107,776	\$ 5,616,473	1,431,891	191,239	(5,433,596)	1,806,007

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Six months ended March 31**2017****2016**

In Canadian dollars

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

Net profit for the period	\$	18,720	397,031
Items not affecting cash:			
Share-based compensation		34,096	58,963
Depreciation and amortization		516,984	521,750
Non-cash government assistance		(423,503)	-
Finance costs		847,941	863,928
Deferred taxes		397,708	671,604
Unrealized loss (gain) on derivative instruments		369	(19,535)
Interest paid		(25,476)	(22,985)
		1,366,839	2,470,756
Changes in non-cash working capital (Note 15)		(2,506,630)	(635,049)
Net change in cash from operating activities		(1,139,791)	1,835,707

Investing activities

Purchase of property and equipment, net of government assistance		(44,873)	(102,008)
Net change in cash from investing activities		(44,873)	(102,008)

Financing activities

Advances of long-term debt		1,564,564	-
Repayment of obligations under finance leases		(7,209)	(20,093)
Repayment of long-term debt		(641,145)	(983,961)
Repayment of other financial liabilities		(332,811)	(139,427)
Share options exercised		11,948	-
Repurchase of shares under normal course issuer bid		(129,418)	-
Interest paid		(315,995)	(463,523)
Net change in cash from financing activities		149,934	(1,607,004)

(Decrease) in cash and cash equivalents

		(1,034,730)	126,695
Cash and cash equivalents, beginning of period		3,111,352	3,196,631
Cash and cash equivalents, end of period	\$	2,076,622	3,323,326

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2017

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 May 24, 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

Six months ended March 31, 2017

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:

	March 31 2016		March 31 2016
	Previously Reported	Adjustment	Restated
Statement of financial position			
Unbilled revenue	\$ 864,806	(480,711)	384,095
Other current assets	530,950	201,946	732,896
Deferred tax assets	4,001,244	86,417	4,087,661
Deficit	(5,658,704)	(192,348)	(5,851,052)
Statement of comprehensive income (six months ended March 31, 2016)			
Service revenue	9,462,878	(480,711)	8,982,167
Direct costs	7,621,535	(201,946)	7,419,589
Income tax expense deferred	758,021	(86,417)	671,604
Net profit and comprehensive income	589,379	(192,348)	397,031
Net profit per share - basic	0.0060	(0.0020)	0.0040
Net profit per share - diluted	0.0059	(0.0019)	0.0040
Statement of comprehensive income (three months ended March 31, 2016)			
Service revenue	4,663,211	(300,521)	4,362,690
Direct costs	4,916,908	(126,248)	4,790,660
Income tax expense deferred	352,297	(54,025)	298,272
Net profit and comprehensive income	356,109	(120,248)	235,861
Net profit per share - basic	0.0036	(0.0012)	0.0024
Net profit per share - diluted	0.0036	(0.0012)	0.0024

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

	March 31 2017	September 30 2016
Trade	\$ 3,639,666	2,159,010
Government assistance	2,275,581	2,451,855
Other	19,736	28,685
	\$ 5,934,983	4,639,550

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2017

In Canadian dollars

6. Other current assets

		March 31 2017	September 30 2016
Prepaid expenses	\$	453,684	637,467
Work in progress		578,954	388,504
Current portion of share purchase loan		169,816	119,589
	\$	1,202,454	1,145,560

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
March 31, 2017	\$ 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	-	-	198,954	157,786	-	356,740
March 31, 2017	\$ 265,500	61,815	2,561,075	1,185,786	-	4,074,176
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
March 31, 2017	\$ -	-	581,028	1,719,214	1,853,131	4,153,373

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	44,873	-	-	-	44,873
March 31, 2017	\$ 706,156	805,886	46,967	193,956	1,752,965
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	58,386	93,814	-	8,044	160,244
March 31, 2017	\$ 533,383	526,112	46,967	168,710	1,275,172
Carrying values					
October 1, 2015	\$ 185,392	441,586	-	49,378	676,356
September 30, 2016	\$ 186,286	373,588	-	33,290	593,164
March 31, 2017	\$ 172,773	279,774	-	25,246	477,793

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2017

In Canadian dollars

9. Deferred development funding

	March 31	September 30
	2017	2016
Opening balance	\$ 822,809	1,806,020
Funding provided	48,579	1,417,687
Development costs incurred	(732,815)	(2,400,898)
Ending balance	\$ 138,573	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 \$373,347 of funding from the National Research Council associated with the project.

During the six months ended March 31, 2017, the Company expensed \$732,815 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	March 31	September 30
		2017	2016
Unsecured convertible term note - 14%	2013-2017	\$ 2,948,524	3,442,909
Term loan - 4.09%	2016-2019	2,880,316	3,000,000
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	362,745	417,986
Government of Nova Scotia - 5%	2013-2021	914,044	992,663
Atlantic Canada Opportunities Agency - non-interest bearing	2018-2023	1,141,060	-
Atlantic Canada Opportunities Agency - non-interest bearing	2012-2017	48,591	94,802
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018	130,365	169,683
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019	215,667	244,712
Atlantic Canada Opportunities Agency - non-interest bearing	2016-2017	-	192,741
		8,641,312	8,555,496
less: current portion		(4,227,527)	(1,461,175)
Total long-term debt		\$ 4,413,785	7,094,321

(a) Unsecured convertible term note - 14%

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 six months ended March 31, 2017, \$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

Six months ended March 31, 2017In Canadian dollars

10. Long-term debt (continued)

(c) Atlantic Canada Opportunities Agency - non-interest bearing

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 installments of \$50,000 commencing October 1, 2018. As of March 31, 2017, the Company has drawn \$1,564,564 under this program. The loan has been recorded using the effective interest method and the difference between the proceeds received and fair value is recognized as government assistance (Note 13).

11. Other financial liabilities

	March 31	September 30
	2017	2016
Unsecured royalty obligation	\$ 1,887,354	1,845,647
ACOA-AIF unsecured royalty obligation	1,891,145	1,870,095
	<u>3,778,499</u>	<u>3,715,742</u>
less: current portion	(385,071)	(619,380)
Total long-term other financial liabilities	\$ 3,393,428	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

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. As of September 30, 2016, \$245,296 has been repaid.

12. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

	Number of	Share
	Shares	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	<u>98,217,276</u>	<u>5,087,066</u>
Shares repurchased and cancelled under normal course issuer bid	(764,500)	(38,225)
Shares issued upon exercise of share options	155,000	11,948
Shares issued upon exercise of convertible debenture	3,500,000	555,684
Issued and outstanding at March 31, 2017	<u>101,107,776</u>	<u>5,616,473</u>

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2017In Canadian dollars

12. Share capital (continued)

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 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 six months ended March 31, 2017, 764,500 shares were purchased for \$129,418. The purchases resulted in a decrease to share capital and deficit of \$38,225 and \$91,193, respectively. As of March 31, 2017, 2,200,500 common shares had been repurchased under the plan at an average price of \$0.16 per share. This bid expired on March 30, 2017.

On March 31, 2017, the Company received approval from the TSX Venture Exchange for a further normal course issuer bid to acquire up to an aggregate of 5,052,889 outstanding common shares. The new bid will expire March 30, 2018.

(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	(212,000)	\$0.08
Expired	(3,875,135)	\$0.25
Exercised	(155,000)	\$0.11
Outstanding at March 31, 2017	10,361,302	\$0.11
Exercisable at March 31, 2017	8,242,723	\$0.12

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 \$34,096 of share-based compensation expense in the six months ended March 31, 2017, relating to the Stock Option Plan March 31, 2015 - \$58,963). 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

(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 March 31, 2017, no shares were outstanding under the plan.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2017

In Canadian dollars

12. Share capital (continued)

(e) Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit 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:

	Three months ended March 31		Six months ended March 31	
	2017	2016	2017	2016
Common shares issued and outstanding, beginning of period	100,952,776	98,986,609	98,217,276	98,986,609
Weighted average shares issued through convertible debenture	-	-	1,860,958	-
Weighted average shares issued through exercise of share options	23,204	-	48,066	-
Weighted average shares purchased through normal course issuer bid	-	-	(587,898)	-
Weighted average number of shares used in basic earnings per share	100,975,980	98,986,609	99,538,402	98,986,609
Effect of share options on issue	5,228,096	658,946	4,569,867	370,952
Weighted average number of shares used in diluted earnings per share	106,204,076	99,645,555	104,108,269	99,357,561

For the three and six months ended March 31, 2017, 3,670,800 share options (2016 - 12,482,833) and 20,000,000 shares on convertible notes (2016 - 24,166,667) were excluded from the calculation of diluted weighted average number of shares calculation because their effect would be anti-dilutive.

13. Government assistance and other funding

	Three months ended March 31		Six months ended March 31	
	2017	2016	2017	2016
Government assistance included in income:				
National Research Council	\$ -	83,845	48,579	176,871
Research & Development Corporation	-	116,003	9,378	116,003
Invest New Brunswick	-	-	-	15,000
Digital Media Tax Credits	305,588	212,134	537,872	379,671
Discounts on below-market interest rate financial instruments	423,503	-	423,503	-
Other indirect government assistance included in income:				
The Boeing Company - Funding under the Government of Canada's IRB Policy	316,630	565,582	684,236	983,513
	\$ 1,045,721	977,564	1,703,568	1,671,058

14. Finance costs

	Three months ended March 31		Six months ended March 31	
	2017	2016	2017	2016
Interest on long-term debt	\$ 151,206	172,089	324,242	346,513
Accretion of other financial liabilities	198,429	166,945	395,570	331,812
Accretion of long-term debt	47,830	75,832	100,815	161,712
Short-term interest and bank charges	18,403	5,660	29,446	7,012
Interest on finance lease obligations	892	368	1,836	906
Other financing costs	(4,367)	12,388	(3,968)	15,973
Total finance costs	\$ 412,393	433,282	847,941	863,928

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15. Changes in non-cash working capital

	2017	2016
Accounts receivable	\$ (1,295,433)	(154,589)
Unbilled revenue	(355,554)	1,077,191
Other current assets	(56,894)	(233,731)
Other long-term assets	(67,511)	-
Accounts payable and accruals	(195,056)	(124,248)
Deferred revenue	148,054	(864,241)
Deferred development funding	(684,236)	(335,431)
	<u>\$ (2,506,630)</u>	<u>(635,049)</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:

	Three months ended		Six months ended	
	March 31		March 31	
	2017	2016	2017	2016
Salaries and other labour costs	\$ 3,836,626	4,223,807	7,598,152	7,677,855
Materials, services and supplies	2,101,070	2,742,853	2,686,215	3,612,620
Travel and living	106,015	141,150	242,977	264,833
Occupancy	184,996	186,707	379,929	381,997
Professional fees	135,872	133,231	266,824	329,686
Other costs	127,519	387,066	288,311	367,877
Total expenses classified by nature	<u>\$ 6,492,098</u>	<u>7,814,814</u>	<u>11,462,408</u>	<u>12,634,868</u>

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 March 31, 2017, the total amount receivable was \$169,816 (September 30, 2016 - \$169,816) and 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 six months ended March 31, 2017, the Company incurred \$141,120 (2015 - \$141,120) of rent expense associated with the lease.

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17. Related party transactions (continued)

(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.

	Three months ended		Six months ended	
	March 31		March 31	
	2017	2016	2017	2016
Fees, salaries and benefits to key management personnel	170,411	170,956	343,336	469,481
Share based compensation to key management personnel	7,857	14,313	17,790	29,946

18. Financial instruments

Financial instrument risk

(a) 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 six months ended March 31, 2017, the Company recorded a \$4,593 loss on foreign currency (2016 - \$189,394). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the six months ended March 31, 2017, the Company recorded revenue of \$6,953,392 from contracts denominated in US dollars (2016 - \$6,879,506). A 5% change in the U.S. dollar exchange rate would result in a \$347,670 impact on revenue recognized (2015 - \$343,975).

As at the March 31, 2017, the Company held receivables of \$1,933,666 from contracts denominated in US dollars (2016 - \$945,677). A 5% change in the US dollar exchange rate would result in a \$96,683 (2016 - \$47,284) impact on revenue recognized.

19. 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:

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19. Segment reporting (continued)

	Six months ended March 31, 2017			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 2,757,714	8,821,168	-	11,578,882
Direct costs	1,199,360	5,729,562	-	6,928,922
Gross profit	1,558,354	3,091,606	-	4,649,960
Expenses				
Sales and marketing	580,316	276,256	-	856,572
General and administration	286,537	564,500	1,446,970	2,298,007
Research and development costs	646,092	732,815	-	1,378,907
Government assistance and other funding	(124,378)	(1,155,687)	(423,503)	(1,703,568)
Share-based compensation	6,353	4,913	22,830	34,096
Finance costs	-	-	847,941	847,941
Depreciation and amortization	260,931	247,977	8,076	516,984
Other (gains) and losses	-	-	4,593	4,593
	1,655,851	670,774	1,906,907	4,233,532
(Loss) earnings before income taxes	\$ (97,497)	2,420,832	(1,906,907)	416,428

	Six months ended March 31, 2016			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 2,386,052	11,280,428	-	13,666,480
Direct costs	1,072,932	6,346,657	-	7,419,589
Gross profit	1,313,120	4,933,771	-	6,246,891
Expenses				
Sales and marketing	822,513	210,235	4,736	1,037,484
General and administration	346,455	655,657	1,393,818	2,395,930
Research and development costs	698,352	1,083,513	-	1,781,865
Government assistance and other funding	(207,874)	(1,463,184)	-	(1,671,058)
Share-based compensation	10,355	10,821	37,787	58,963
Finance costs	-	-	863,928	863,928
Depreciation and amortization	309,158	205,010	7,582	521,750
Other (gains) and losses	-	-	189,394	189,394
	1,978,959	702,052	2,497,245	5,178,256
(Loss) earnings before income taxes	\$ (665,839)	4,231,719	(2,497,245)	1,068,635

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19. Segment reporting (continued)

	Three months ended March 31, 2017			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,359,612	5,499,822	-	6,859,434
Direct costs	559,452	3,778,549	-	4,338,001
Gross profit	800,160	1,721,273	-	2,521,433
Expenses				
Sales and marketing	262,964	136,229	-	399,193
General and administration	158,722	239,920	705,712	1,104,354
Research and development costs	333,920	316,630	-	650,550
Government assistance and other funding	(60,000)	(562,218)	(423,503)	(1,045,721)
Share-based compensation	2,897	2,330	10,014	15,241
Finance costs	-	-	412,393	412,393
Depreciation and amortization	125,368	125,088	4,831	255,287
Other (gains) and losses	-	-	(40,992)	(40,992)
	823,871	257,979	668,455	1,750,305
(Loss) earnings before income taxes	\$ (23,711)	1,463,294	(668,455)	771,128

	Three months ended March 31, 2016			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,225,614	6,869,669	-	8,095,283
Direct costs	542,965	4,247,695	-	4,790,660
Gross profit	682,649	2,621,974	-	3,304,623
Expenses				
Sales and marketing	448,821	88,663	3,639	541,123
General and administration	221,920	362,981	617,618	1,202,519
Research and development costs	407,322	665,582	-	1,072,904
Government assistance and other funding	(99,848)	(877,716)	-	(977,564)
Share-based compensation	5,507	5,547	18,452	29,506
Finance costs	-	-	433,282	433,282
Depreciation and amortization	154,638	102,660	3,814	261,112
Other (gains) and losses	-	-	207,608	207,608
	1,138,360	347,717	1,284,413	2,770,490
(Loss) earnings before income taxes	\$ (455,711)	2,274,257	(1,284,413)	534,133

20. Subsequent event

On April 17, 2017, the Company amended the terms of the short-term bank operating line of credit. Under the revised terms, the Company can borrow to a maximum of the lesser of \$2,500,000 and defined marginable accounts receivable minus specified liabilities. The revolving operating facility is repayable on demand and bears interest at Royal Bank prime plus 2.20%. The Company has provided a General Security Agreement as security for this indebtedness. The line of credit was undrawn as at March 31, 2017 (September 30, 2016 - undrawn).