

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

Three months ended December 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.

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**
2017 **2017**

In Canadian dollars

ASSETS

Current assets

Cash	\$	1,757,712	2,149,369
Restricted cash (Note 3)		-	3,000,000
Accounts receivable (Note 4)		5,626,543	6,767,217
Unbilled revenue		351,000	672,595
Other current assets (Note 5)		1,700,578	1,370,797

9,435,833 13,959,978

Deferred tax assets		5,208,739	5,101,620
Goodwill and other intangible assets (Note 6)		3,717,749	3,857,605
Property and equipment (Note 7)		376,461	446,355
Other long-term assets		169,816	169,816

\$ 18,908,598 23,535,374

LIABILITIES AND EQUITY

Current liabilities

Accounts payable and accruals	\$	2,382,700	2,817,304
Deferred revenue		2,428,108	3,373,469
Current portion of long-term debt (Note 8)		2,012,781	4,813,606
Other current liabilities		324,984	369,055

7,148,573 11,373,434

Long-term debt (Note 8)		4,009,635	4,204,001
Discounted royalty obligations (Note 10)		3,347,833	3,167,693
Deferred tax liabilities		431,525	449,504
Other long-term liabilities		40,233	45,711

14,977,799 19,240,343

Equity

Share capital (Note 11)		5,535,389	5,547,489
Contributed surplus		1,637,285	1,633,535
Deficit		(3,241,875)	(2,885,993)

3,930,799 4,295,031

\$ 18,908,598 23,535,374

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**2017****2016**

In Canadian dollars

Revenue

Services revenue	\$	3,566,616	3,898,182
Product sales		1,555,587	821,266
		5,122,203	4,719,448
Direct costs		3,248,589	2,590,921

Gross profit

1,873,614 2,128,527

Expenses

Sales and marketing		381,706	457,379
General and administration		1,145,961	1,193,653
Research and development costs		507,478	728,357
Government assistance and other funding (Note 12)		(325,420)	(657,847)
Share-based compensation (Note 11)		3,750	18,855
Finance costs (Note 13)		394,916	435,548
Depreciation and amortization		216,999	261,697
Other (gains) and losses (Note 14)		(2,997)	45,585

2,322,393 2,483,227

Profit before income taxes

(448,779) (354,700)

Income tax (recovery) expense

Deferred		(125,098)	62,384
		(125,098)	62,384

Net profit and comprehensive income

\$ (323,681) (417,084)

Net profit per share

Basic		(0.0035)	(0.0045)
Diluted		(0.0035)	(0.0045)

Weighted average number of shares outstanding (Note 11)

Basic		93,809,359	92,287,315
Diluted		93,809,359	92,287,315

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Three months ended December 31

In Canadian dollars

	Ordinary Common Shares	Share Capital	Contributed Surplus - Share Options	Contributed Surplus - Convertible Notes	Deficit	Total
October 1, 2016	98,217,276	\$ 5,087,066	\$ 1,397,795	\$ 221,923	\$ (5,361,123)	\$ 1,345,661
Exercise of share options	30,000	3,198	18,855	-	-	22,053
Repurchase of shares under normal course issuer bid (Note 11)	(764,500)	(38,225)	-	-	(91,193)	(129,418)
Conversion of debenture (Note 8)	3,500,000	555,684	-	(30,684)	-	525,000
Net profit and comprehensive income	-	-	-	-	(417,084)	(417,084)
December 31, 2016	100,982,776	\$ 5,607,723	\$ 1,416,650	\$ 191,239	\$ (5,869,400)	\$ 1,346,212
Share-based compensation	-	-	25,646	-	-	25,646
Exercise of share options	125,000	8,866	-	-	-	8,866
Repurchase of shares under normal course issuer bid (Note 11)	(1,382,000)	(69,100)	-	-	(181,670)	(250,770)
Conversion of debenture (Note 8)	-	-	-	-	-	-
Net profit and comprehensive income	-	-	-	-	3,165,077	3,165,077
September 30, 2017	99,725,776	\$ 5,547,489	\$ 1,442,296	\$ 191,239	\$ (2,885,993)	\$ 4,295,031
Share-based compensation	-	-	3,750	-	-	3,750
Repurchase of shares under normal course issuer bid (Note 11)	(242,000)	(12,100)	-	-	(32,201)	(44,301)
Net profit and comprehensive income	-	-	-	-	(323,681)	(323,681)
December 31, 2017	99,483,776	\$ 5,535,389	\$ 1,446,046	\$ 191,239	\$ (3,241,875)	\$ 3,930,799

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Three months ended December 31**2017****2016**

In Canadian dollars

Increase (decrease) in cash**Operating activities**

Net profit for the period	\$	(323,681)	(417,084)
Items not affecting cash:			
Share-based compensation		3,750	18,855
Depreciation and amortization		216,999	261,697
Non-cash government assistance		(107,509)	-
Finance costs		394,916	435,548
Deferred taxes		(125,098)	62,384
Unrealized loss on derivative instruments		100,942	73,249
Net foreign exchange differences		(132,788)	(18,802)
Interest paid		(4,904)	(11,442)
		22,627	404,405
Changes in non-cash working capital (Note 15)		(322,836)	(1,635,512)
Net change in cash from operating activities		(300,209)	(1,231,107)

Investing activities

Purchase of property and equipment		(7,249)	(18,397)
Decrease in restricted cash		3,000,000	-
Net change in cash from investing activities		2,992,751	(18,397)

Financing activities

Advances of long-term debt		385,537	-
Repayment of obligations under finance leases		(5,115)	(3,579)
Repayment of long-term debt		(3,378,230)	(319,972)
Repayment of other financial liabilities		(53,221)	(219,250)
Share options exercised			3,198
Repurchase of shares under normal course issuer bid		(44,301)	(129,418)
Interest paid		(96,074)	(62,857)
Net change in cash from financing activities		(3,191,404)	(731,878)

Decrease in cash		(498,862)	(1,981,382)
Cash and cash equivalents, beginning of period		2,149,369	3,111,352
Net foreign exchange impact on cash		107,205	17,192
Cash, end of period	\$	1,757,712	1,147,162

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended December 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 consolidated financial statements comprise the Company and its 100% owned operating subsidiaries as follows:

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

The Company provides e-learning and course development services and offers online training solutions for businesses and individuals through 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 condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on February 28, 2018.

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, 2017. 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, 2017.

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.

3. 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 following fifteen months. Proceeds of the term debt were 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 was made regarding conversion or repayment of the unsecured convertible term note (Note 8) which was due December 30, 2017. The proceeds of the term loan were presented as restricted cash in current assets on the consolidated statements of financial position. On November 17, 2017 the restricted cash balance was used to repay the unsecured convertible term note in full.

4. Accounts receivable

	December 31 2017	September 30 2017
Trade	\$ 2,015,213	3,060,842
Government assistance - digital media tax credits	3,482,723	3,492,256
Government assistance - other	115,377	208,651
Other	13,230	5,468
	<u>\$ 5,626,543</u>	<u>6,767,217</u>

Included in trade receivables at December 31, 2017 is an allowance for doubtful accounts for \$328,331 (September 30, 2017 - \$328,884). Provision are recognized in other gains and losses on the consolidated statements of comprehensive income.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2017

In Canadian dollars

5. Other current assets

	December 31	September 30
	2017	2017
Work in progress	\$ 1,329,173	936,282
Prepaid expenses	342,439	304,607
Derivative asset	28,966	129,908
	\$ 1,700,578	1,370,797

6. Goodwill and other intangible assets

	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost					
October 1, 2016	\$ 61,815	3,142,103	2,905,000	1,853,131	7,962,049
September 30, 2017	\$ 61,815	3,142,103	2,905,000	1,853,131	7,962,049
December 31, 2017	\$ 61,815	3,142,103	2,905,000	1,853,131	7,962,049
Accumulated amortization and impairment losses					
October 1, 2016	\$ 61,815	2,362,121	1,028,000	-	3,451,936
Amortization	-	336,936	315,572	-	652,508
September 30, 2017	\$ 61,815	2,699,057	1,343,572	-	4,104,444
Amortization	-	60,963	78,893	-	139,856
December 31, 2017	\$ 61,815	2,760,020	1,422,465	-	4,244,300
Carrying values					
October 1, 2016	\$ -	779,982	1,877,000	1,853,131	4,510,113
September 30, 2017	\$ -	443,046	1,561,428	1,853,131	3,857,605
December 31, 2017	\$ -	382,083	1,482,535	1,853,131	3,717,749

7. Property and equipment

	Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost					
October 1, 2015	\$ 661,283	805,886	46,967	193,956	1,708,092
Additions	169,601	-	-	-	169,601
September 30, 2016	\$ 830,884	805,886	46,967	193,956	1,877,693
Additions	7,249	-	-	-	7,249
September 30, 2017	\$ 838,133	805,886	46,967	193,956	1,884,942
Accumulated depreciation					
October 1, 2015	\$ 474,997	432,298	46,967	160,666	1,114,928
Depreciation	112,042	188,280	-	16,088	316,410
September 30, 2016	\$ 587,039	620,578	46,967	176,754	1,431,338
Depreciation	31,588	41,533	-	4,022	77,143
September 30, 2017	\$ 618,627	662,111	46,967	180,776	1,508,481
Carrying values					
October 1, 2015	\$ 186,286	373,588	-	33,290	593,164
September 30, 2016	\$ 243,845	185,308	-	17,202	446,355
September 30, 2017	\$ 219,506	143,775	-	13,180	376,461

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2017

In Canadian dollars

8. Long-term debt

	Term	December 31 2017	September 30 2017
Unsecured convertible term note - 14%	2013-2017 \$	-	2,979,099
Term loan - 4.09%	2016-2019	2,535,966	2,778,533
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	274,552	304,685
Government of Nova Scotia - 5%	2013-2021	793,464	834,018
Atlantic Canada Opportunities Agency - non-interest bearing	2018-2023	2,183,908	1,848,324
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018	67,594	89,040
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019	166,932	183,908
		<u>6,022,416</u>	<u>9,017,607</u>
Less: current portion		<u>(2,012,781)</u>	<u>(4,813,606)</u>
Total long-term debt	\$	4,009,635	4,204,001

(a) Unsecured convertible term note - 14%

On November 17, 2017, the Company used the restricted cash (Note 3) to repay in full the 14.0% unsecured convertible term note in the aggregate principal amount of \$3,000,000. The debenture was set to mature on December 30, 2017.

(b) 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 each commencing October 1, 2018.

On November 28, 2017, the Company made the final draw on the \$3.0 million funding contribution from Atlantic Canada Opportunities Agency. Proceeds on this draw were \$385,537. As of December 31, 2017, the Company has drawn the full \$3.0 million under this program (September 30, 2017 - \$2,614,464). 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 12).

9. Operating loans

The Company has a short-term bank operating line of credit 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 December 31, 2017 (September 30, 2017 - undrawn).

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2017

In Canadian dollars

10. Discounted royalty obligations

	December 31 2017	September 30 2017
Unsecured royalty obligation	\$ 1,728,501	1,657,160
ACOA-AIF unsecured royalty obligation	1,922,954	1,858,589
	3,651,455	3,515,749
less: current portion	(303,622)	(348,056)
Total long-term other financial liabilities	\$ 3,347,833	3,167,693

(a) Unsecured royalty obligation

The Unsecured royalty obligation agreement requires Bluedrop to pay a royalty of 1.0% of revenues in perpetuity with a minimum royalty payment of \$17,541 per month. The terms include a buyout option allowing the Company to extinguish 100% of all amounts owing upon payment of \$2,000,000. The obligation has been recorded using the effective interest method.

(b) ACOA-AIF unsecured Royalty obligation

The Company has 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 December 31, 2017, \$359,479 has been repaid.

11. 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, 2016	98,217,276	\$ 5,087,066
Shares repurchased and cancelled under normal course issuer bid	(2,146,500)	(107,325)
Shares issued upon exercise of share options	155,000	12,064
Shares issued upon exercise of convertible debenture	3,500,000	555,684
Issued and outstanding at September 30, 2017	99,725,776	5,547,489
Shares repurchased and cancelled under normal course issuer bid	(242,000)	(12,100)
Issued and outstanding at December 31, 2017	99,483,776	\$ 5,535,389

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. 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. As of December 31, 2017, 1,624,000 common shares had been repurchased under the new plan at an average price of \$0.18 per share. The new bid will expire on March 30, 2018.

During the quarter ended December 31, 2017, 242,000 shares were purchased for \$44,301. The purchases resulted in a decrease to share capital and deficit of \$12,100 and \$32,201, respectively.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2017In Canadian dollars

11. Share capital (continued)

(c) Share options	Number of options	Exercise price per share
Outstanding at October 1, 2016	14,603,437	\$0.15
Forfeitures	(337,000)	\$0.07
Expired	(4,067,920)	\$0.25
Exercised	(155,000)	\$0.08
Outstanding at September 30, 2017	10,043,517	\$0.11
Outstanding at December 31, 2017	10,043,517	\$0.11
Exercisable at December 31, 2017	8,299,196	\$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 \$3,750 of share-based compensation expense in the three months ended December 31, 2017, relating to the Stock Option Plan (2016 - \$18,855). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model.

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

(e) Earnings per share

Both basic and diluted earnings per share have been calculated using the profit attributable to shareholders as the numerator. The reconciliation of the weighted average number of shares for the purposes of basic and diluted earnings per share is as follows:

	2017	2016
Common shares issued and outstanding, beginning of period	99,725,776	98,217,276
Weighted average shares purchased through normal course issuer bid	(159,766)	(173,310)
Weighted average shares in treasury stock	(5,756,651)	(5,756,651)
Weighted average number of shares used in basic and diluted earnings per share	93,809,359	92,287,315

For the three months ended December 31, 2017, 10,043,517 share options (2016 - 14,459,102) and 20,000,000 shares on convertible notes (2016 - 20,000,000) 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

Three months ended December 31, 2017

In Canadian dollars

12. Government assistance and other funding

	2017	2016
Government assistance included in income:		
National Research Council	\$ 139,390	48,579
Research & Development Corporation	39,856	9,378
Invest New Brunswick	595	-
Digital Media Tax Credits	38,070	232,284
Discounts on below-market interest rate debt (Note 8)	107,509	-
Other indirect government assistance included in income:		
The Boeing Company - Funding under the Government of Canada's IRB Policy	-	367,606
	<u>\$ 325,420</u>	<u>657,847</u>

13. Finance costs

	2017	2016
Interest on long-term debt	\$ 98,591	173,036
Accretion of other financial liabilities	188,927	197,141
Accretion of long-term debt	101,313	52,985
Short-term interest and bank charges	3,005	11,043
Interest on finance lease obligations	1,182	944
Other financing costs	1,898	399
Total finance costs	<u>\$ 394,916</u>	<u>435,548</u>

14. Other (gains) and losses

	2017	2016
Unrealized loss on derivative instrument	\$ 100,942	73,248
Foreign exchange gain	(103,939)	(27,663)
Total other (gains) and losses	<u>\$ (2,997)</u>	<u>45,585</u>

15. Changes in non-cash working capital

	2017	2016
Accounts receivable	\$ 1,153,988	(1,139,544)
Unbilled revenue	321,595	(184,687)
Other current assets	(430,723)	42,277
Accounts payable and accruals	(422,335)	(603,338)
Deferred revenue	(945,361)	617,386
Deferred development funding	-	(367,606)
	<u>\$ (322,836)</u>	<u>(1,635,512)</u>

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2017In Canadian dollars

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:

	2017	2016
Salaries and other labour costs	\$ 3,409,927	3,761,526
Materials, services and supplies	1,295,217	585,145
Travel and living	125,724	136,962
Occupancy	203,828	194,933
Professional fees	116,023	130,952
Other costs	133,015	160,792
Total expenses classified by nature	\$ 5,283,734	4,970,310

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 company controlled by Derrick Rowe, the Executive Chairman 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. As at December 31, 2017, the total amount receivable was \$169,816 (September 30, 2017 - \$169,816) and are included in other long-term assets on the statements of financial position.

(b) Rental lease

Effective October 1, 2011, the Company entered into a rental lease with an entity controlled by Emad Rizkalla, 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. On September 28, 2017, the Company renewed the lease for the four year renewal term, which expires on September 30, 2021. 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, 2017, the Company incurred \$73,080 (2016 - \$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.

	2017	2016
Fees, salaries and benefits to key management personnel	\$ 170,525	\$ 172,925
Share based compensation to key management personnel	\$ 1,054	\$ 9,933

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2017

In Canadian dollars

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 software as a service 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:

	Three months ended December 31, 2017			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 606,822	4,515,381	-	5,122,203
Direct costs	298,664	2,949,925	-	3,248,589
Gross profit	308,158	1,565,456	-	1,873,614
Expenses				
Sales and marketing	253,173	128,533	-	381,706
General and administration	131,266	406,220	608,475	1,145,961
Research and development costs	303,557	203,921	-	507,478
Government assistance and other funding	(170,838)	(47,073)	(107,509)	(325,420)
Share-based compensation	663	1,203	1,884	3,750
Finance costs	-	-	394,916	394,916
Depreciation and amortization	91,456	121,704	3,839	216,999
Other (gains) and losses	(21,564)	8,521	10,046	(2,997)
	587,713	823,029	911,651	2,322,393
(Loss) earnings before income taxes	\$ (279,555)	742,427	(911,651)	(448,779)

	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)

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2017

In Canadian dollars

19. Comparative figures

Certain comparative figures have been reclassified to conform with the December 31, 2017 financial statement presentation.