Bluedrop Performance Learning Inc.

Consolidated Financial Statements

Year ended September 30, 2018

Contents

KPMG LLP
Toronto Dominion Place
140 Water St, Suite 1001
St. John's NL A1C 6H6
Tel 709-733-5000
Fax 709-733-5050
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bluedrop Performance Learning Inc.

We have audited the accompanying consolidated financial statements of Bluedrop Performance Learning Inc., which comprise the consolidated statements of financial position as at September 30, 2018 and September 30, 2017, the consolidated statements comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bluedrop Performance Learning Inc. as at September 30, 2018 and September 30, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
St. John's, Canada
January 28, 2019

Bluedrop Performance Learning Inc.

Consolidated Statements of Financial Position

In Canadian dollars

		September 30 2018	September 30 2017
ASSETS			
Current assets			
Cash	$	1,638,177	2,149,369
Restricted cash (Note 5)		-	3,000,000
Accounts receivable (Note 6)		6,992,395	6,767,217
Unbilled revenue		46,245	672,595
Other current assets (Note 7)		953,182	1,370,797
		9,629,999	13,959,978
Deferred tax assets (Note 8)		5,071,270	5,101,620
Goodwill and other intangible assets (Note 9)		3,363,436	3,857,605
Property and equipment (Note 10)		223,664	446,355
Other long-term assets (Note 19)		169,816	169,816
	$	18,458,185	23,535,374
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accruals	$	2,005,146	2,817,304
Deferred revenue		3,920,458	3,373,469
Current portion of long-term debt (Note 11)		2,295,078	4,813,606
Other current liabilities		230,295	369,055
		8,450,977	11,373,434
Long-term debt (Note 11)		2,646,475	4,204,001
Discounted royalty obligations (Note 12)		3,697,531	3,167,693
Deferred tax liabilities (Note 8)		377,588	449,504
Other long-term liabilities		23,223	45,711
		15,195,794	19,240,343
Equity			
Share capital (Note 13)		5,457,889	5,547,489
Contributed surplus		1,645,422	1,633,535
Deficit		(3,840,920)	(2,885,993)
		3,262,391	4,295,031
	$	18,458,185	23,535,374

Approved on Behalf of the Board

Subsequent events (Note 24)

Derrick H. Rowe
Director

Emad Rizkalla
Director

Bluedrop Performance Learning Inc.

Consolidated Statements of Comprehensive Income (Loss)

Year ended September 30		2018	2017
In Canadian dollars			
Revenue			
Services revenue	$	14,106,058	15,843,790
Product sales		5,927,458	7,549,355
		20,033,516	23,393,145
Direct costs		11,815,185	13,336,088
Gross profit		8,218,331	10,057,057
Expenses			
Sales and marketing		1,788,387	1,677,703
General and administration		4,400,744	4,343,856
Research and development costs		2,970,261	2,874,567
Government assistance and other funding (Note 14)		(2,072,081)	(3,467,718)
Share-based compensation (Note 13)		11,887	44,501
Finance costs (Note 15)		1,258,562	1,306,970
Depreciation and amortization		802,869	968,918
Other (gains) and losses (Note 16)		(170,416)	339,372
		8,990,213	8,088,169
Profit (loss) before income taxes		(771,882)	1,968,888
Income tax (recovery) expense			
Current		-	-
Deferred (Note 8)		(41,566)	(779,105)
		(41,566)	(779,105)
Net profit (loss) and comprehensive income (loss)	$	(730,316)	2,747,993
Net profit (loss) per share			
Basic	$	(0.01)	0.03
Diluted	$	(0.01)	0.03
Weighted average number of shares outstanding (Note 13)			
Basic		93,125,827	94,316,499
Diluted		93,125,827	118,979,705

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Year ended September 30

In Canadian dollars

	Ordinary Common Shares	Share Capital	Contributed surplus	Equity component of convertible debentures	Deficit	Total
October 1, 2016	98,217,276	$ 5,087,066	$ 1,397,795	$ 221,923	$ (5,361,123)	$ 1,345,661
Share-based compensation	-	-	44,501	-	-	44,501
Exercise of share options	155,000	12,064	-	-	-	12,064
Repurchase of shares under normal course						-
issuer bid (Note 13)	(2,146,500)	(107,325)	-	-	(272,863)	(380,188)
Conversion of debenture (Note 11)	3,500,000	555,684	-	(30,684)	-	525,000
Net profit and comprehensive income	-	-	-	-	2,747,993	2,747,993
September 30, 2017	99,725,776	$ 5,547,489	$ 1,442,296	$ 191,239	$ (2,885,993)	$ 4,295,031
Share-based compensation	-	-	11,887	-	-	11,887
Repurchase of shares under normal course						
issuer bid (Note 13)	(1,792,000)	(89,600)	-	-	(224,611)	(314,211)
Repayment of convertible debenture (Note 11)	-	-	191,239	(191,239)	-	-
Net profit (loss) and comprehensive income (loss)	-	-	-	-	(730,316)	(730,316)
September 30, 2018	97,933,776	$ 5,457,889	$ 1,645,422	$ -	$ (3,840,920)	$ 3,262,391

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Year ended September 30		**2018**	**2017**
In Canadian dollars			
Increase (decrease) in cash			
Operating activities			
Net profit (loss) for the period	$	(730,316)	2,747,993
Items not affecting cash:			
Share-based compensation		11,887	44,501
Depreciation and amortization		802,869	968,918
Non-cash government assistance		(458,200)	(817,826)
Finance costs		1,258,562	1,306,970
Deferred taxes		(41,566)	(779,105)
Unrealized gain on derivative instruments		97,519	(146,545)
Net foreign exchange differences		(139,357)	93,862
Interest paid		(38,033)	(38,601)
		763,365	3,380,167
Changes in non-cash working capital (Note 17)		474,649	(4,133,924)
Net change in cash from operating activities		1,238,014	(753,757)
Investing activities			
Purchase of property and equipment		(86,009)	(129,474)
Decrease in restricted cash		3,000,000	-
Net change in cash from investing activities		2,913,991	(129,474)
Financing activities			
Advances of long-term debt		848,506	2,614,464
Repayment of obligations under finance leases		(20,999)	(17,990)
Repayment of long-term debt		(4,805,234)	(1,064,341)
Repayment of other financial liabilities		(302,976)	(602,240)
Share options exercised		-	12,064
Repurchase of shares under normal course issuer bid		(314,211)	(380,188)
Interest paid		(189,090)	(611,309)
Net change in cash from financing activities		(4,784,004)	(49,540)
Decrease in cash		(631,999)	(932,771)
Cash and cash equivalents, beginning of period		2,149,369	3,111,352
Net foreign exchange impact on cash		120,807	(29,212)
Cash, end of period	$	1,638,177	2,149,369

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 Segment	Bluedrop Learning Networks Segment
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 in-service support 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 consolidated financial statements were approved and authorized for issuance by the Board of Directors on January 28, 2019.

2. Basis of presentation

These consolidated financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS).

These consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities, which are measured at their fair value, and are presented in Canadian dollars.

The accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements of all periods presented.

3. Significant accounting policies

(a) Cash

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

(b) Intangible assets

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

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

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

Goodwill

Goodwill arises on the acquisition of subsidiaries. Goodwill represents the excess of the aggregate of the cost of an acquisition, including the Company's best estimate of the fair value of contingent consideration and the acquisition-date fair value of any previous held equity interest in the acquiree, over the fair value of the net identifiable assets of the acquiree at the acquisition date.

Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

3. Significant accounting policies (continued)

(c) Foreign currencies

The Company's consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency. Functional currency is the currency of the primary economic environment in which the entity operates.

Revenue, expenses and non-monetary assets and liabilities denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the statement of financial position date. Unrealized and realized translation gains and losses are included in the consolidated statements of earnings in other (gains) and losses.

(d) Property and equipment

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

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

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

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

(e) Leases

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

(f) Provisions

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

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

(g) Revenue recognition

Multiple-element arrangements

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

3. Significant accounting policies (continued)

(g) Revenue recognition (continued)

Services revenue

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

Revenues from custom courseware development contracts are recognized on a percentage of completion basis, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Revenues are recognized as services are rendered when the revenue and costs incurred and to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. Costs incurred during the year in connection with work in progress are excluded from direct costs and such costs are classified as current assets on the statement of financial position unless it is not probable that such costs are recoverable from the customer, in which case, such costs are recognized as an expense immediately.

The timing of revenue recognition often differs from contract payment schedules. Amounts billed in accordance with customer contracts but in advance of completion of services are recorded as deferred revenue. The value of unbilled services performed is recorded as unbilled revenue.

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

Product sales

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

The Company develops and sells specifically designed training devices and simulator related products. Revenues from the development and construction of such products is recognized using the percentage-of-completion method when it is probable that the economic benefits associated with the contract will flow to the Company, the revenue, contract costs to complete and the stage of contract completion at the end of the reporting period can be reliably measured, and when the contract costs and be clearly identified and reliably measured so that the actual contract costs incurred can be compared with prior estimates. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. When the criteria to use the percentage-of-completion method are not met, revenue is recognized to the extent of the contract costs incurred that are likely to be recoverable.

The Company offers online training solutions for businesses and individuals through CoursePark™ and Bluedrop360™, cloud-based learning management solutions and Campus™, a traditional learning management system. Revenues from commercial off-the-shelf courseware, and cloud-based learning management system licensing is recognized over the term of the license arrangement. Revenues from traditional learning management system licencing is recognized upon delivery of the product.

(h) Development costs

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

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

3. Significant accounting policies (continued)

(i) Government assistance

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

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

The benefit of government loans at below-market rates of interest are treated as a government grant. The loan is recognized and measured at fair value using discount rates expected to be incurred on similar debt if the Company was to otherwise receive a financial arrangement from a financial institution. The benefit of the below-market rate of interest is measured as the difference between the initial fair value of the loan determined and the proceeds received.

(j) Share-based compensation

The Company has an equity settled share-based compensation plan and records compensation expense for share options using the fair value method. The compensation expense for options granted to employees is determined based on the estimated fair value of the share options at the time of grant using the Black-Scholes option pricing model and is amortized over the vesting period with an offset to contributed surplus. When options are exercised, the corresponding share option reserve and the proceeds received by the Company are credited to share capital. The amount recognized as expense is adjusted to reflect the number of options expected to vest. As estimate of forfeitures is made when determining stock based compensation expense, and based on the nature of the options and prior years history, an estimate of 0% of forfeitures has been made.

(k) Income taxes

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

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

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

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

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

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

3. Significant accounting policies (continued)

(l) Financial instruments

The Company classifies all financial instruments as either held for trading, available for sale, held to maturity, loans and receivables, other financial liabilities, or fair value through profit and loss. All financial instruments are initially measured at fair value. Financial instruments that are classified as fair value through profit and loss are carried at fair value at each reporting date and any change in fair value is recorded in earnings. Held for trading or available for sale financial instruments are subsequently measured at fair value, with any change in fair value recognized in earnings and other comprehensive income, respectfully. All other financial instruments are subsequently measured at amortized cost using the effective interest method.

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

Asset/Liability	Classification	Measurement
Cash	Loans and receivables	Fair value
Restricted cash	Loans and receivables	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Derivative asset	Fair value through profit and loss	Fair value
Accounts payable and accruals	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost
Other financial liabilities	Other financial liabilities	Amortized cost

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

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

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

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

(m) Compound financial instruments (convertible notes)

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

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

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

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

3. Significant accounting policies (continued)

(n) Business combinations

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

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

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

(o) Earnings per share

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

(p) Impairment of assets

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

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

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

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

(q) Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts for estimated losses that may occur if customers are unable to pay balances owing to the Company. This allowance is determined based on a review of specific customers, historical experience and economic circumstances.

3. Significant accounting policies (continued)

(r) Significant management judgement and estimation uncertainty

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

Significant management judgements

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

i) Revenue recognition

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

The Company sometimes enters into multiple component revenue arrangements, which may include a combination of design, platform development, manufacturing of flight simulators and other products, product licenses, as well as the provision of training services, spare parts and maintenance. When a single sales transaction requires the delivery of more than one product or service (multiple components), the revenue recognition criteria are applied to the separately identifiable components. A component is considered separately identifiable if the delivered item has value to the customer on a stand-alone basis and the fair value associated with the product or service can be reliably measured.

The allocation of the revenue from a multiple component arrangement is based on the fair value of each element in relation to the fair value of the arrangement as a whole.

The Company's revenues can be divided into two main accounting categories: service revenue and product sales.

ii) Income taxes

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

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

iii) Government assistance

The Company receives government assistance pursuant to specific contractual funding agreements and is also eligible to receive cash tax credits under the SRED and DMTC programs. Government assistance is recorded when amounts can be reasonably estimated and receipt is reasonably assured. Claims relating to specific funding agreements are based on the defined eligible costs pursuant to the agreements. Contributions are recognized when the related expenditures are incurred and/or when significant milestones have been achieved in a funded project.

Government assistance may be overstated if the underlying project is determined to be ineligible or if certain costs claimed are determined to be ineligible.

3. Significant accounting policies (continued)

iv) Development costs

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

v) Classification of financial arrangements

The Company has entered into complex financing arrangements in the form of conditionally repayable government grants with below-market interest rates. Management uses significant judgement in selection of discount rates. Discount rates selected are what management believe to be market interest rates if the Company was otherwise to receive a financial arrangement from a financial institution.

vi) Deferred development funding

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

Estimation uncertainty

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

i) Fair value of financial liabilities

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

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

ii) Impairment of non-financial assets

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

iii) Revenue recognition

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

3. Significant accounting policies (continued)

iv) Share-based compensation

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

v) Work in progress

Work in progress is stated at cost and includes direct labour and materials relating to ongoing internal projects. Management expects to enter into contracts and earn profits from work in progress costs at margins for similar products and services. To the extent management does not expect to recover the work in progress costs, they are expensed in the statement of operations.

vi) Income tax expense

Management has made certain estimates related to income tax filing positions subject to acceptance by the tax authorities. Changes in these assumptions may result in a material change to taxes payable and income tax expense.

4. New and future accounting standards

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

(a) *IFRS 9 Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

Special transitional requirements have been set for the application of the new general hedging model.

The Company intends to adopt IFRS 9 in its consolidated financial statements for the annual period beginning on October 1, 2018. The extent of the financial impact of adoption of the amendments has not yet been determined.

(b) *IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB released IFRS 15 Revenue from Contracts with Customers. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property.

4. New and future accounting standards (continued)

(b) *IFRS 15 Revenue from Contracts with Customers* (continued)

We have conducted a preliminary assessment of the effects of the application of IFRS 15 on our interim and annual consolidated financial statements. Our preliminary analysis has identified the following impacts:

- Revenue from the sale of certain training devices currently considered as construction contracts and accounted for under the percentage-of-completion method will not meet the requirements for revenue recognition over time. This change will result in the deferral of revenue recognition to the date when control is transferred to the customer instead of revenue recognition over the construction period.
- a change in the identification of performance obligations for certain multiple element arrangements.

While the adoption of IFRS 15 may impact the timing of revenue recognition, there is no impact on the cash flows provided by the underlying contracts.

We anticipate electing to apply IFRS 15 retrospectively and thus will restate our comparative results, with an opening adjustment to equity as at October 1, 2017. The company will elect to use the following practical expedients in the adoption of IFRS 15:

- For completed contracts, the Company will not restate contracts that begin and end within the same annual reporting period or are complete at the beginning of the earliest year presented (i.e. October 1, 2017);
- For completed contracts that have variable consideration, the Company will use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods;
- For contracts that were modified before the beginning of the earliest period presented the Company will reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying satisfied and unsatisfied performance obligations, determining the transaction price and allocating the transaction price to performance obligations; and
- For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

The Company intends to adopt IFRS 15 and the clarifications in its consolidated financial statements for the annual period beginning on October 1, 2018. The extent of the financial impact of adoption of the amendments has not yet been determined.

(c) *IFRS 16 Leases*

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

4. New and future accounting standards (continued)

(d) Annual Improvements to IFRS Standards (2015-2017) Cycle

On December 12, 2017 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendments are effective on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements. Amendments were made to the following standards:

- *IFRS 3 Business Combinations* and *IFRS 11 Joint Arrangements* - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- *IAS 12 Income Taxes* – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI, or equity; and
- *IAS 23 Borrowing Costs* – to clarify that funds borrowed specifically to finance the construction of a qualifying asset should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed. They also clarify that an entity includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of general borrowings.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the amendments has not yet been determined.

(e) *IFRIC 23 Uncertainty over Income Tax Treatments*

On June 7, 2017, the IASB issued *IFRIC Interpretation 23 Uncertainty over Income Tax Treatments*. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires:

- an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Company intends to adopt the Interpretation in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of the change has not yet been determined.

(f) Amendments to References to the Conceptual Framework in IFRS Standards

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards (the Amendments) to update references in IFRS Standards to previous versions of the Conceptual Framework.
Both documents are effective from January 1, 2020 with earlier application permitted.

Some Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document which contains consequential amendments to affected Standards so that they refer to the new Framework, with the exception of *IFRS 3 Business Combinations* which continues to refer to both the 1989 and 2010 Frameworks.

The Company does not intend to adopt the Amendments in its financial statements before the annual period beginning on January 1, 2020. The extent of the impact of the change has not yet been determined.

5. Restricted cash

At September 30, 2016, the Company raised term debt to preserve working capital for growth and to fund its maturing debt obligations. 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 11) which was due December 30, 2017. On November 17, 2017 the restricted cash balance was used to fully repay the unsecured convertible term note.

In Canadian dollars

6. Accounts receivable

		September 30 2018	September 30 2017
Trade	$	3,552,948	3,060,842
Government assistance - digital media tax credits		3,053,484	3,492,256
Government assistance - other		360,112	208,651
Other		25,851	5,468
	$	6,992,395	6,767,217

Included in trade receivables at September 30, 2018 is an allowance for doubtful accounts for $222,536 (2017 - $325,884). This change in the provision has been recognized in other gains and losses on the statements of comprehensive income (loss).

7. Other current assets

		September 30 2018	September 30 2017
Work in progress	$	607,019	936,282
Prepaid expenses		313,774	304,607
Derivative asset (Note 20)		32,389	129,908
	$	953,182	1,370,797

8. Income taxes

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

		2018	2017
Earnings before income tax	$	(771,882)	1,968,888
Statutory tax rate		30.0%	30.0%
Expected tax expense		(231,565)	590,666
Non-deductible share based compensation		3,598	13,429
Other non-deductible expenses		33,352	26,580
Change in enacted tax rates		-	(100,026)
Effect of difference in statutory tax rates of subsidiaries		5,358	34,444
Revaluation of future tax assets		147,691	(1,344,198)
	$	(41,566)	(779,105)
Deferred tax expense			
Origination and reversal of temporary differences		(190,469)	411,190
Change in recognized deductible temporary differences		148,903	71,928
Change in recognition of tax losses		-	(1,262,223)
	$	(41,566)	(779,105)

In Canadian dollars

8. Income taxes (continued)

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

		September 30 2018	September 30 2017
Intangible assets	$	(1,040,722)	(1,051,082)
Property and equipment		862,023	649,320
Long-term debt		(323,426)	(285,296)
Other financial liabilities		543,728	497,148
Deferred revenue		252,039	456,986
Non-capital losses		4,400,040	4,385,040
	$	4,693,682	4,652,116
Deferred tax assets		5,071,270	5,101,620
Deferred tax liabilities		(377,588)	(449,504)
	$	4,693,682	4,652,116

Deferred tax liabilities of $5,302,787 (2017 - $5,257,848) associated with investments in subsidiaries have not been recognized, as the Company controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

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

		September 30 2018	September 30 2017
Deductible temporary differences	$	1,083,864	676,796
Non-capital losses		1,748,943	1,689,849

9. 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
September 30, 2018	$	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		-	178,598	315,571	-	494,169
September 30, 2018	$	61,815	2,877,655	1,659,143	-	4,598,613
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
September 30, 2018	$	-	264,448	1,245,857	1,853,131	3,363,436

No development expenditures, or related government assistance, have been capitalized in intangible assets during the year.

Technology assets above include the Bluedrop 360 platform and have a remaining useful life of two years. The Company also has two customer lists included in Customer Relationships above that have net book values of $1,218,000 and $27,857, and have remaining useful lives of five years and four months, respectively.

In Canadian dollars

9. Goodwill and other intangible assets (continued)

(a) Impairment test - Goodwill

For the purpose of annual impairment testing goodwill is allocated to the operating segments expected to benefit from the synergies of the business combinations in which the goodwill arose. At September 30, 2018, $1,415,007 of goodwill has been allocated to the Bluedrop Learning Networks operating segment and $438,124 has been allocated to the Bluedrop Training and Simulation operating segment.

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

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

10. Property and equipment

		Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost						
October 1, 2016	$	661,283	805,886	46,967	193,956	1,708,092
Additions		169,601	-	-	-	169,601
September 30, 2017	$	830,884	805,886	46,967	193,956	1,877,693
Additions		74,666	11,343	-	-	86,009
Disposals		-	-	(46,967)	-	(46,967)
September 30, 2018	$	905,550	817,229	-	193,956	1,916,735
Accumulated depreciation						
October 1, 2016	$	474,997	432,298	46,967	160,666	1,114,928
Depreciation		112,042	188,280	-	16,088	316,410
September 30, 2017	$	587,039	620,578	46,967	176,754	1,431,338
Depreciation		130,169	162,798	-	15,733	308,700
Disposals		-	-	(46,967)	-	(46,967)
September 30, 2018	$	717,208	783,376	-	192,487	1,693,071
Carrying values						
October 1, 2016	$	186,286	373,588	-	33,290	593,164
September 30, 2017	$	243,845	185,308	-	17,202	446,355
September 30, 2018	$	188,342	33,853	-	1,469	223,664

In Canadian dollars

11. Long-term debt and operating facilities

		Term		September 30 2018	September 30 2017
Unsecured convertible term note - 14%	(a)	2013-2017	$	-	2,979,099
Term loan - 4.09%	(b)	2016-2019		1,516,251	2,778,533
Government assistance debt:					
Province of Newfoundland and Labrador - 4.75%	(c)	2016-2019		179,519	304,685
Government of Nova Scotia - 5%	(d)	2013-2021		669,029	834,018
Atlantic Canada Opportunities Agency - non-interest bearing	(e)	2018-2023		2,353,268	1,848,324
Atlantic Canada Opportunities Agency - non-interest bearing	(f)	2013-2018		-	89,040
Atlantic Canada Opportunities Agency - non-interest bearing	(g)	2015-2019		111,208	183,908
Strategic Innovation Fund - non-interest bearing	(h)	2025-2039		112,278	-
				4,941,553	9,017,607
less: current portion				(2,295,078)	(4,813,606)
Total long-term debt			$	2,646,475	4,204,001

(a) Unsecured convertible term note - 14%

On December 11, 2015, the Company entered into an agreement to amend the maturity date of the $3,000,000 unsecured convertible term note from December 31, 2016 to December 30, 2017. 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 year ended September 30, 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. On November 17, 2017, the convertible term note was repaid in full.

(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 general security agreement over other assets of the Company. The loan was also initially secured by a $3.0 million Guaranteed Investment Certificate (Note 5) which was subsequently been released from security.

(c) Province of Newfoundland and Labrador - 4.75%

During 2011, the Province of Newfoundland and Labrador converted an equity investment into a $500,000 term loan bearing interest at 4.75% per annum. The term loan is repayable in monthly blended payments of $12,500 until January 2020 and is secured by a general security agreement. The loan has been recorded using the effective interest method and the difference between the proceeds received and fair value was recognized as government assistance.

(d) Government of Nova Scotia - 5%

During 2012, the Company secured a $1.7 million term loan from the Government of Nova Scotia. The loan bears interest at 5.0% per annum and is secured against certain property located in the Halifax office. The facility is repayable in monthly principal payments of $16,579, plus interest, until May 2022. The loan has been recorded using the effective interest method and the difference between the proceeds received and fair value was recognized as government assistance.

(e) 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. 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 14).

In Canadian dollars

11. Long-term debt and operating facilities (continued)

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

During 2012, the Company secured a $469,875 funding contribution under the Atlantic Canada Opportunities Agency Business Development Program. The unsecured, non-interest bearing loan was repayable in 60 monthly installments of $7,831 until September 2018. The loan was recorded using the effective interest method and the difference between the proceeds received and fair value was recognized as government assistance. The loan was repaid in full at September 30, 2018.

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

During 2014, the Company secured a $500,000 funding contribution under the Atlantic Canada Opportunities Agency Business Development Program. The unsecured, non-interest bearing loan is repayable in 60 monthly installments of $8,333 until December 2019. The loan has been recorded using the effective interest method and the difference between the proceeds received and fair value was recognized as government assistance.

(h) Strategic Innovation Fund - non-interest bearing

On May 16, 2018, the Company announced a $7.6 million repayable investment under the Strategic Innovation Fund Program to support innovation and development of simulation capabilities. The unsecured, non-interest bearing loan is repayable in 15 annual repayments of $735,722 commencing January 1, 2025. As at September 30, 2018 the Company has drawn $462,969 of the funds. 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 14).

(i) Operating line of credit

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 September 30, 2018 (2017 - undrawn).

12. Discounted royalty obligations

		September 30 2018	September 30 2017
Unsecured royalty obligation	$	1,812,427	1,657,160
ACOA-AIF unsecured royalty obligation		2,092,911	1,858,589
		3,905,338	3,515,749
less: current portion (included in other current liabilities)		(207,807)	(348,056)
Total long-term other financial liabilities	$	3,697,531	3,167,693

(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 paid a minimum royalty of $40,000 per month until May 31, 2017, after which time the minimum royalty decreased to $17,541 per month.

During the year, management revalued the unsecured royalty obligation due to a change in forecasted future cashflows and as a result recognized a gain of $163,757 (Note 15).

In Canadian dollars

12. Discounted royalty obligations (continued)

(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 September 30, 2018, $449,709 has been repaid.

The facility has been recorded using the effective interest method and the difference between the proceeds received and fair value was recognized as government assistance at the time of grant. During the year, management revalued the ACOA-AIF unsecured royalty obligation due to a change in forecasted future cashflows and as a result recognized an expense of $67,101 (Note 15)

13. 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 conversion of 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	(1,792,000)	(89,600)
Issued and outstanding at September 30, 2018	97,933,776	$ 5,457,889

Included in the total above are 5,756,651 shares relating to share purchase loans to a director of the Company (Note 19). 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.

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. 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. 2,218,000 common shares were repurchased under the plan at an average price of $0.18 per share. The bid expired on March 30, 2018.

On March 26, 2018, the Company received approval from the TSX Venture Exchange for a further normal course issuer bid to acquire up to an aggregate of 4,962,464 outstanding common shares. As at September 30, 2018, 956,000 common shares had been repurchased under the plan at an average price of $0.17 per share. The new bid will expire on March 30, 2019.

During the year ended September 30, 2018, 1,792,000 (2017 - 2,146,500) shares were purchased for $314,211 (2017 - $380,188). The purchases resulted in a decrease to share capital and deficit of $89,600 (2017 - $107,325) and $224,611 (2017 - $272,863), respectively. The 50,000 shares that were repurchased in September 2018 were cancelled on October 1, 2018. 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.

In Canadian dollars

13. Share capital (continued)

(c) Share options

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 $11,887 of share-based compensation expense in the year ended September 30, 2018, relating to the Stock Option Plan (2017 - $44,501). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model. No stock options were granted during the year ended September 30, 2018 (2017 - none).

	Number of options	Weighted average 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 September 30, 2018	10,043,517	$0.11
Exercisable at September 30, 2018	9,793,517	$0.11

During the year ended September 30, 2018, no share options were exercised. During the year ended September 30, 2017, 155,000 share options were exercised at a weighted average price of $0.08 per share.

Share options held by members of the Board, executive management team, and employees of the Company have the following expiry dates and exercise prices:

Weighted Average Exercise Price	Expiry Date	Number Outstanding	Number Exercisable	Weighted Average Remaining Contractual Life
$0.13	March 6, 2019	6,754,874	6,754,874	0.43 years
$0.07	March 5, 2020	1,017,343	1,017,343	1.43 years
$0.08	May 29, 2020	250,000	250,000	1.66 years
$0.08	September 30, 2020	1,521,300	1,521,300	2.00 years
$0.11	March 8, 2021	400,000	200,000	2.44 years
$0.18	September 23, 2021	100,000	50,000	2.98 years
$0.11		10,043,517	9,793,517	0.91 years

(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 September 30, 2018, no shares were outstanding under the plan (2017 - none).

In Canadian dollars

13. Share capital (continued)

(e) Earnings (loss) per share

Basic earnings per share has been calculated using the profit (loss) attributable to shareholders as the numerator. Diluted earnings (loss) per share has been adjusted to reflect the impact of finance charges on convertible debt. The reconciliation of net profit (loss) and the weighted average number of shares for the purposes of basic and diluted earnings (loss) per share is as follows:

	2018	2017
Net profit (loss) and comprehensive income (loss)	(730,316)	2,747,993
Finance charges on convertible debentures	-	357,388
Net profit (loss) and comprehensive income (loss) adjusted for impact of dilution	(730,316)	3,105,381

	2018	2017
Common shares issued and outstanding, beginning of year	99,725,776	98,217,276
Weighted average shares issued through conversion of unsecured term loan	-	2,684,982
Weighted average shares issued through exercise of share options	-	101,827
Weighted average shares purchased through normal course issuer bid	(843,298)	(930,935)
Weighted average shares in treasury stock	(5,756,651)	(5,756,651)
Weighted average number of shares used in basic earnings per share	93,125,827	94,316,499
Effect of share options on issue	-	3,848,188
Effect of convertible debentures	-	20,815,018
Weighted average number of shares used in diluted earnings per share	93,125,827	118,979,705

For the year ended September 30, 2018, 10,043,017 share options (2017 - none) and no shares on convertible notes (2017 - none) were excluded from the calculation of diluted weighted average number of shares calculation as their effect would be anti-dilutive.

14. Government assistance and other funding

		2018	2017
Government assistance included in income:			
National Research Council	$	723,419	245,587
Research & Development Corporation		136,810	122,567
Digital Media Tax Credits		543,314	1,442,027
Scientific Research & Experimental Development Tax Credits		206,262	-
Discounts on below-market interest rate debt (Note 11)		458,200	817,826
Other government assistance		4,076	16,902
Other indirect government assistance included in income:			
The Boeing Company - Funding under the Government of Canada's IRB Policy		-	822,809
	$	2,072,081	3,467,718

On July 8, 2015, Bluedrop and The Boeing Company (Boeing) entered into an agreement whereby Boeing would contribute US$2.29 million to the Company to support the development of the next generation rear crew trainer for the CH-47 Chinook helicopter. During the year ended September 30, 2017, the Company recognized $822,809 of funding assistance to offset costs related to the development of the trainer.

15. Finance costs

		2018	2017
Interest on long-term debt	$	197,287	625,785
Accretion of other financial liabilities		789,221	776,791
Accretion of long-term debt		326,485	236,052
Short-term interest and bank charges		21,346	43,590
Revaluation of financial liabilities (Note 12)		(96,656)	(374,544)
Interest on finance lease obligations		4,192	4,286
Other financing costs		16,687	(4,990)
Total finance costs	$	1,258,562	1,306,970

In Canadian dollars

16. Other (gains) and losses

		2018	2017
Bad debt (recovery) expense	$	(110,676)	325,884
Foreign exchange (gain) loss		(59,740)	13,488
Total other (gains) and losses	$	(170,416)	339,372

17. Changes in non-cash working capital

		2018	2017
Accounts receivable	$	(201,685)	(2,153,299)
Unbilled revenue		626,350	(631,686)
Other current assets		320,096	(242,000)
Other long-term assets		-	380,410
Accounts payable and accruals		(817,101)	(412,449)
Deferred revenue		546,989	(252,091)
Deferred development funding		-	(822,809)
	$	474,649	(4,133,924)

18. 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:

		2018	2017
Salaries and other labour costs	$	14,249,197	14,359,440
Materials, services and supplies		4,385,798	5,572,282
Travel and living		546,664	484,258
Occupancy		810,032	758,498
Professional fees		464,066	498,813
Other costs		518,820	558,923
Total expenses classified by nature	$	20,974,577	22,232,214

19. 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 December 31, 2019. As at September 30, 2018, the total amount receivable was $169,816 (2017 - $169,816) and is included in other long-term assets on the statements of financial position.

In Canadian dollars

19. Related party transactions (continued)

(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. 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 year ended September 30, 2018, the Company incurred $292,320 (2017 - $295,772) 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.

	2018	2017
Fees, salaries and benefits to key management personnel	$ 762,600	$ 940,785
Share based compensation to key management personnel	$ 3,575	$ 19,276

20. Financial instruments

Fair value measurement

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

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

The following table sets out the approximate fair values of financial instruments on the statement of financial position as at September 30, 2018, which are all recorded at amortized cost following initial recognition:

	Fair value	September 30, 2018		September 30, 2017	
	hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	1	$ 1,638,177	$ 1,638,177	$ 2,149,369	$ 2,149,369
Accounts receivable	2	$ 6,992,395	$ 6,992,395	$ 6,767,217	$ 6,767,217
Restricted cash	1	$ -	$ -	$ 3,000,000	$ 3,000,000
Derivative asset (Note 7)	2	$ 32,389	$ 32,389	$ 129,908	$ 129,908
Accounts payable and accruals	2	$ 2,005,146	$ 2,005,146	$ 2,817,304	$ 2,817,304
Long-term debt (including current portion)	2 & 3	$ 4,941,553	$ 4,973,082	$ 9,017,607	$ 9,129,121
Other financial liabilities (including current portion)	2 & 3	$ 3,905,338	$ 3,935,841	$ 3,515,749	$ 3,529,470

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

The fair values of the long-term debt and other financial liabilities are estimated using a discounted cash flow valuation technique. The fair value measurement uses level 3 inputs based on estimates of future cash flows associated with the liabilities and discount rates that reflect market assessments of the performance risk which includes the credit risk of Company at September 30, 2018. Derivative assets and liabilities are recorded at fair value using prevailing foreign exchange market rates and interest rates at the reporting date.

20. Financial instruments (continued)

Financial instrument risk

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

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

(a) Interest rate risk

The Company's obligations under finance leases are at fixed interest rates. A significant portion of long-term debt is at interest rates which are fixed or are non-interest bearing. As at September 30, 2018, the Company was in compliance with contract terms associated with long-term debt arrangements. As such, the Company's exposure to fluctuations in interest rates is not considered material.

(b) Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on transactions incurred in US dollars. During the year ended September 30, 2018, the Company recorded a $59,740 gain on foreign currency (2017 - $13,488 loss). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the year ended September 30, 2018, the Company recorded revenue of $9,921,934 from contracts denominated in US dollars (2017 - $12,647,009). A 5% change in the U.S. dollar exchange rate would result in a $496,097 impact on revenue recognized (2017 - $632,355).

As at the September 30, 2018, the Company held receivables of $2,749,315 from contracts denominated in US dollars (2017 - $1,759,340). A 5% change in the US dollar exchange rate would result in a $137,466 (2017 - $87,967) impact on foreign exchange gains or losses.

Non-hedge designated derivative instruments

On September 30, 2018, the Company held 6 outstanding foreign exchange contracts with various maturities to Feb 2019 to sell US$2,400,000 into Canadian dollars at rates averaging CA$1.30 to yield $3,120,000. On September 30, 2018, the Company recorded a derivative asset of $32,389 included in other current assets representing the fair value of these outstanding contracts since inception and their initial measurement.

On September 30, 2017, the Company held 4 outstanding foreign exchange contracts with various maturities to December 2017 to sell US$1,400,000 into Canadian dollars at rates averaging CA$1.36 to yield $1,876,000. On September 30, 2017, the Company recorded an derivative asset of $146,545 included in other current assets representing the fair value of these outstanding contracts since inception and their initial measurement.

(c) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. The Company's maximum exposure to credit risk corresponds to the carrying value of accounts receivable and unbilled work in progress. Three customers accounted for 68% of revenue (2017 – three customers - 67%) and two customers accounted for 81% of the Company's trade receivables at September 30, 2018 (2017 – five customers - 80%).

An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The allowance for doubtful accounts at September 30, 2018, was $222,536 (2017 - $325,884). At September 30, 2018, the Company's trade accounts receivable included amounts over 90 days old totaling $1,078,192 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (2017 - $295,616).

In Canadian dollars

20. Financial instruments (continued)

(d) Liquidity risk

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

		1 year	1-5 years	>5 years
Accounts payable and accruals	$	2,005,146	-	-
Obligations under finance leases		25,191	24,518	-
Long-term debt		2,633,705	3,034,007	671,310
	$	4,664,042	3,058,525	671,310

21. Capital management

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

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

The Company believes that current cash balances and future funds generated through its operations will be sufficient to meet cash requirements currently and for the foreseeable future. If the Company were to experience a significant reduction in its cash flows from operations, it currently has a variety of options for raising capital for short-term cash needs, including an unused demand operating line of credit facility (Note 11). There were no changes in the Company's approach to capital management during the year ended September 30, 2018. The Company is not subject to any externally imposed capital requirements.

22. Leases

Certain intangibles assets and property and equipment are held under finance lease arrangements. In addition, the Company has entered into operating lease arrangements for office occupancy and equipment. Operating lease expense for the year ended September 30, 2018 was $800,172 (2017 - $756,612). Future minimum lease payments (including interest) at September 30, 2018 are as follows:

		1 year	1-5 years	>5 years
Obligations under finance lease	$	25,191	24,518	-
Operating leases	$	787,071	2,450,107	422,383

The Company has entered into a rental lease for office premises in St. John's, NL with an initial term of six years ending September 30, 2017. The lease has a four year renewal option which was exercised on September 28, 2017 and the renewal period expires on September 30, 2021. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter. The Company incurred $292,320 (2017 - $295,772) in rent expense associated with the lease.

The Company has entered into a rental lease arrangement for office premises in Halifax, NS, which expires on August 31, 2024. The remaining lease has a fixed net lease rate for the remainder of the term. During the year, the Company incurred $466,462 (2017 - $444,213) in rent expense associated with the lease.

In Canadian dollars

23. 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:

		2018			
		Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	$	3,680,610	16,352,906	-	20,033,516
Direct costs		1,502,548	10,312,637	-	11,815,185
Gross profit		2,178,062	6,040,269	-	8,218,331
Expenses					
Sales and marketing		1,173,113	615,274	-	1,788,387
General and administration		623,469	1,268,214	2,509,061	4,400,744
Research and development costs		1,436,654	1,533,607	-	2,970,261
Government assistance and other funding		(803,962)	(809,919)	(458,200)	(2,072,081)
Share-based compensation		2,109	3,228	6,550	11,887
Finance costs		-	-	1,258,562	1,258,562
Depreciation and amortization		300,597	486,902	15,370	802,869
Other (gains) and losses		(138,880)	(30,043)	(1,493)	(170,416)
		2,593,100	3,067,263	3,329,850	8,990,213
(Loss) earnings before income taxes	$	(415,038)	2,973,006	(3,329,850)	(771,882)

		2017			
		Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	$	4,294,230	19,098,915	-	23,393,145
Direct costs		1,928,139	11,407,949	-	13,336,088
Gross profit		2,366,091	7,690,966	-	10,057,057
Expenses					
Sales and marketing		1,107,893	569,810	-	1,677,703
General and administration		590,970	1,152,080	2,600,806	4,343,856
Research and development costs		1,300,188	1,574,379	-	2,874,567
Government assistance and other funding		(658,927)	(1,990,965)	(817,826)	(3,467,718)
Share-based compensation		8,753	7,844	27,904	44,501
Finance costs		-	-	1,306,970	1,306,970
Depreciation and amortization		459,552	493,749	15,617	968,918
Other (gains) and losses		325,885	-	13,487	339,372
		3,134,314	1,806,897	3,146,958	8,088,169
(Loss) earnings before income taxes	$	(768,223)	5,884,069	(3,146,958)	1,968,888

24. Subsequent events

Subsequent to the statement of financial position date, the Company made an additional draw against the $7.6 million repayable investment under the Strategic Innovation Fund Program (Note 11). Proceeds on this draw were $256,065 and the difference between proceeds received and fair value is recognized as government assistance.