

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

Nine months ended June 30, 2017

Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of Bluedrop Performance Learning Inc. (the Company) have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, the Company discloses that its independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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Bluedrop Performance Learning Inc.Consolidated Statements of Financial Position
Unaudited**June 30 September 30**
2017 2016

In Canadian dollars

ASSETS

Current assets

Cash and cash equivalents	\$ 1,496,911	3,111,352
Restricted cash (Note 4)	3,000,000	-
Accounts receivable (Note 5)	4,622,334	4,639,550
Unbilled revenue	964,398	81,029
Other current assets (Note 6)	987,656	1,145,560

11,071,299 8,977,491

Other long-term assets	787,553	550,226
Restricted cash (Note 4)	-	3,000,000
Deferred tax assets	3,850,710	4,375,509
Goodwill and other intangible assets (Note 7)	3,993,444	4,510,113
Property and equipment (Note 8)	499,185	593,164

\$ 20,202,191 22,006,503

LIABILITIES AND EQUITY

Current liabilities

Accounts payable and accruals	\$ 2,720,976	3,377,526
Deferred revenue	2,987,293	3,507,748
Deferred development funding (Note 9)	-	822,809
Current portion of long-term debt (Note 10)	4,509,374	1,461,175
Other current liabilities	331,852	648,802

10,549,495 9,818,060

Long-term debt (Note 10)	3,981,180	7,094,321
Other financial liabilities (Note 11)	3,112,343	3,096,362
Deferred revenue	195,227	117,812
Deferred tax liabilities	467,483	502,498
Other long-term liabilities	51,096	31,789

18,356,824 20,660,842

Equity

Share capital (Note 12)	5,602,964	5,087,066
Reserves	1,628,637	1,619,718
Deficit	(5,386,234)	(5,361,123)

1,845,367 1,345,661

\$ 20,202,191 22,006,503

Approved on Behalf of the Board

Derrick H. Rowe
DirectorEmad Rizkalla
Director

Bluedrop Performance Learning Inc.Consolidated Statements of Comprehensive Income
Unaudited**Nine months ended June 30**

In Canadian dollars

	Three Months Ended June 30		Nine Months Ended June 30	
	2017	2016 (As restated Note 3)	2017	2016 (As restated Note 3)
Revenue				
Services revenue	4,090,358	3,933,303	\$ 12,295,574	12,915,470
Product sales	2,360,203	1,703,203	5,733,869	6,387,516
	6,450,561	5,636,506	18,029,443	19,302,986
Direct costs	3,897,675	3,162,075	10,826,597	10,581,664
Gross profit	2,552,886	2,474,431	7,202,846	8,721,322
Expenses				
Sales and marketing	400,763	610,769	1,257,335	1,648,253
General and administration	1,045,651	1,155,249	3,343,658	3,551,179
Research and development costs	628,595	1,083,876	2,007,502	2,865,741
Government assistance and other funding (Note 13)	(384,261)	(1,350,285)	(2,087,829)	(3,021,343)
Share-based compensation (Note 12)	5,507	4,693	39,603	63,656
Finance costs (Note 14)	96,943	396,245	944,884	1,260,173
Depreciation and amortization	237,976	264,442	754,960	786,192
Other (gains) and losses	344,839	42,125	349,432	231,519
	2,376,013	2,207,114	6,609,545	7,385,370
Profit before income taxes	176,873	267,317	593,301	1,335,952
Income tax expense				
Current	-	-	-	-
Deferred	92,076	170,137	489,784	841,741
	92,076	170,137	489,784	841,741
Net profit and comprehensive income	84,797	97,180	103,517	494,211
Net profit per share (Note 12)				
Basic	0.0008	0.0010	0.0010	0.0050
Diluted	0.0008	0.0010	0.0010	0.0049
Weighted average number of shares outstanding (Note 12)				
Basic	100,952,832	98,438,026	100,012,182	98,805,757
Diluted	105,033,644	102,164,212	104,390,254	99,857,427

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Nine months ended June 30

In Canadian dollars

	Ordinary Common Shares	Share Capital	Share Option Reserve	Convertible Notes	Deficit (As Restated Note 3)	Total
October 1, 2015	98,986,609	\$ 5,053,021	1,315,727	227,768	(6,248,083)	348,433
Share-based compensation	-	-	63,656	-	-	63,656
Repurchase of shares under normal course issuer bid (Note 12)	(966,500)	(48,325)	-	-	(98,073)	(146,398)
Net profit and comprehensive income	-	-	-	-	494,211	494,211
June 30, 2016	98,020,109	\$ 5,004,696	1,379,383	227,768	(5,851,945)	759,902
Share-based compensation	-	-	18,412	-	-	18,412
Repurchase of shares under normal course issuer bid (Note 12)	(469,500)	(23,475)	-	-	(57,457)	(80,932)
Conversion of debenture (Note 10)	666,667	105,845	-	(5,845)	-	100,000
Net profit and comprehensive income	-	-	-	-	548,279	548,279
September 30, 2016	98,217,276	\$ 5,087,066	1,397,795	221,923	(5,361,123)	1,345,661
Share-based compensation	-	-	39,603	-	-	39,603
Exercise of share options	155,000	12,064	-	-	-	12,064
Repurchase of shares under normal course issuer bid (Note 12)	(1,037,000)	(51,850)	-	-	(128,628)	(180,478)
Conversion of debenture (Note 10)	3,500,000	555,684	-	(30,684)	-	525,000
Net profit and comprehensive income	-	-	-	-	103,517	103,517
June 30, 2017	100,835,276	\$ 5,602,964	1,437,398	191,239	(5,386,234)	1,845,367

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Nine months ended June 30**2017****2016**

In Canadian dollars

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

Net profit for the period	\$	103,517	494,211
Items not affecting cash:			
Share-based compensation		39,603	63,656
Depreciation and amortization		754,960	786,192
Non-cash government assistance		(423,503)	-
Finance costs		944,884	1,260,173
Deferred taxes		489,784	841,741
Unrealized gain on derivative instruments		(91,113)	(3,632)
Loss on disposal of property and equipment		-	1,219
Interest paid		(40,648)	(30,664)
		1,777,484	3,412,896
Changes in non-cash working capital (Note 15)		(2,793,499)	(3,027,440)
Net change in cash from operating activities		(1,016,015)	385,456

Investing activities

Purchase of property and equipment, net of government assistance		(104,185)	(113,619)
Net change in cash from investing activities		(104,185)	(113,619)

Financing activities

Advances of long-term debt		1,564,564	-
Repayment of obligations under finance leases		(12,962)	(26,361)
Repayment of long-term debt		(862,713)	(1,244,691)
Repayment of other financial liabilities		(551,024)	(202,705)
Share options exercised		12,064	-
Repurchase of shares under normal course issuer bid		(180,478)	(146,398)
Interest paid		(463,692)	(606,307)
Net change in cash from financing activities		(494,241)	(2,226,462)

Decrease in cash and cash equivalents

		(1,614,441)	(1,954,625)
Cash and cash equivalents, beginning of period		3,111,352	3,196,631
Cash and cash equivalents, end of period	\$	1,496,911	1,242,006

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30

In Canadian dollars

1. Nature of operations

Bluedrop Performance Learning Inc. ("Bluedrop" or "the Company") was continued under the Corporations Act of Newfoundland and Labrador on January 26, 2012. These condensed consolidated interim financial statements comprise the Company and its 100% owned operating subsidiaries as follows:

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

The Company provides e-learning and course development services and offers online training solutions for businesses and individuals through cloud-based learning management solutions and traditional learning management systems. In addition, the Company provides custom courseware development, training products, low cost simulation and resource augmentation solutions to improve the safety, productivity and efficiency of military and civil aviation personnel through its Training and Simulation operations. The Company is domiciled in Canada and its registered office is located at 18 Prescott Street, St. John's, Newfoundland and Labrador, A1C 3S4.

These financial statements were approved and authorized for issuance by the Board of Directors on August 25, 2017.

2. Basis of presentation

These condensed consolidated interim financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) and in accordance with International Accounting Standard (IAS) 34 Consolidated Interim Financial Reporting using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board (IASB). These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the preparation of the Company's audited annual financial statements for the year ended September 30, 2016. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended September 30, 2016.

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

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

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30In Canadian dollars

3. Restatement

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

	June 30 2016		June 30 2016
	Previously Reported	Adjustment	Restated
Statement of financial position			
Unbilled revenue	\$ 1,258,587	(740,440)	518,147
Other current assets	515,198	302,658	817,856
Deferred tax assets	3,764,485	135,712	3,900,197
Deficit	(5,549,875)	(302,070)	(5,851,945)
Statement of comprehensive income (three months ended June 30, 2016)			
Service revenue	4,193,032	(259,729)	3,933,303
Direct costs	3,262,787	(100,712)	3,162,075
Income tax expense deferred	219,432	(49,295)	170,137
Net profit and comprehensive income	206,902	(109,722)	97,180
Net profit per share - basic	0.0021	0.0029	0.0010
Net profit per share - diluted	0.0020	0.0029	0.0010
Statement of comprehensive income (nine months ended June 30, 2016)			
Service revenue	13,655,910	(740,440)	12,915,470
Direct costs	10,884,322	(302,658)	10,581,664
Income tax expense deferred	977,453	(135,712)	841,741
Net profit and comprehensive income	796,281	(302,070)	494,211
Net profit per share - basic	0.0081	(0.0071)	0.0050
Net profit per share - diluted	0.0080	(0.0070)	0.0049

4. Restricted cash

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

5. Accounts receivable

	June 30 2017	September 30 2016
Trade	\$ 2,044,026	2,159,010
Government assistance	2,521,267	2,451,855
Other	57,041	28,685
	\$ 4,622,334	4,639,550

Included in trade receivables at June 30, 2017 is an allowance for doubtful accounts for \$339,119 (September 30, 2016 - nil). This provision has been recognized in other gains and losses on the statements of comprehensive income.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30

In Canadian dollars

6. Other current assets

	June 30 2017	September 30 2016
Derivative asset	74,477	-
Prepaid expenses	\$ 327,689	637,467
Work in progress	585,490	388,504
Current portion of share purchase loan	-	119,589
	\$ 987,656	1,145,560

During the quarter ended June 30, 2017, the Company agreed to amend the terms of two share purchase loans issued by the Company, to a related party, in the aggregate amount of \$169,816, to extend the maturity dates of the notes from June 27, 2017 and January 31, 2018, to December 31, 2019. Accordingly, the full amount has been re-classified as a long-term asset on the statements of financial position.

7. Goodwill and other intangible assets

	Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost						
October 1, 2015	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
September 30, 2016	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
June 30, 2017	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549

Accumulated amortization and impairment losses

October 1, 2015	\$ 265,500	61,815	1,480,864	712,429	-	2,520,608
Amortization	-	-	560,891	315,571	-	876,462
Impairment loss	-	-	320,366	-	-	320,366
September 30, 2016	\$ 265,500	61,815	2,362,121	1,028,000	-	3,717,436
Amortization	-	-	279,990	236,679	-	516,669
June 30, 2017	\$ 265,500	61,815	2,642,111	1,264,679	-	4,234,105

Carrying values

October 1, 2015	\$ -	-	1,661,239	2,192,571	1,853,131	5,706,941
September 30, 2016	\$ -	-	779,982	1,877,000	1,853,131	4,510,113
June 30, 2017	\$ -	-	499,992	1,640,321	1,853,131	3,993,444

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30

In Canadian dollars

8. Property and equipment

	Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost					
October 1, 2015	\$ 541,298	782,876	46,967	193,956	1,565,097
Additions	119,985	32,254	-	-	152,239
Disposals	-	(9,244)	-	-	(9,244)
September 30, 2016	\$ 661,283	805,886	46,967	193,956	1,708,092
Additions	144,312	-	-	-	144,312
June 30, 2017	\$ 805,595	805,886	46,967	193,956	1,852,404
Accumulated depreciation					
October 1, 2015	\$ 355,906	341,290	46,967	144,578	888,741
Depreciation	119,091	99,033	-	16,088	234,212
Disposals	-	(8,025)	-	-	(8,025)
September 30, 2016	\$ 474,997	432,298	46,967	160,666	1,114,928
Depreciation	85,654	140,571	-	12,066	238,291
June 30, 2017	\$ 560,651	572,869	46,967	172,732	1,353,219
Carrying values					
October 1, 2015	\$ 185,392	441,586	-	49,378	676,356
September 30, 2016	\$ 186,286	373,588	-	33,290	593,164
June 30, 2017	\$ 244,944	233,017	-	21,224	499,185

9. Deferred development funding

	June 30 2017	September 30 2016
Opening balance	\$ 822,809	1,806,020
Funding provided	48,579	1,417,687
Development costs incurred	(871,388)	(2,400,898)
Ending balance	\$ -	822,809

On July 8, 2015, Bluedrop and The Boeing Company (Boeing) entered into an agreement whereby Boeing would contribute US\$2.29 million to the Company to support the development of the next generation rear crew trainer for the CH-47 Chinook helicopter. In addition, the Company has received \$373,347 of funding from the National Research Council associated with the project.

During the nine months ended June 30, 2017, the Company recognized \$871,388 of funding assistance to offset costs related to the development of the trainer. As of June 30, 2017 all funding for the Boeing rear crew trainer has been recognized.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30In Canadian dollars

10. Long-term debt

	Maturity	June 30 2017	September 30 2016
Unsecured convertible term note - 14%	2013-2017 \$	2,964,070	3,442,909
Term loan - 4.09%	2016-2019	2,819,478	3,000,000
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	334,076	417,986
Government of Nova Scotia - 5%	2013-2021	874,186	992,663
Atlantic Canada Opportunities Agency - non-interest bearing	2018-2023	1,164,034	-
Atlantic Canada Opportunities Agency - non-interest bearing	2012-2017	24,608	94,802
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018	109,960	169,683
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019	200,142	244,712
Atlantic Canada Opportunities Agency - non-interest bearing	2016-2017	-	192,741
		8,490,554	8,555,496
less: current portion		(4,509,374)	(1,461,175)
Total long-term debt	\$	3,981,180	7,094,321

(a) Unsecured convertible term note - 14%

On September 14, 2016, \$100,000 of the unsecured convertible term notes were converted into common shares at a price of \$0.15 per share for a total issuance of 666,667 common shares. During the nine months ended June 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.

(b) Term loan - 4.09%

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

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

On February 23, 2017, the Company secured a \$3.0 million funding contribution under the Atlantic Canada Opportunities Agency Business Development Program to assist with working capital requirements for growth initiatives of the Company. The unsecured, non-interest bearing loan is repayable in 60 monthly installments of \$50,000 commencing October 1, 2018. As of June 30, 2017, the Company has drawn \$1,564,564 under this program. The loan has been recorded using the effective interest method and the difference between the proceeds received and fair value is recognized as government assistance (Note 13).

Subsequent to period end, on August 10, 2017, the Company received additional proceeds of \$1,049,890 under this program.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30

In Canadian dollars

11. Other financial liabilities

	June 30 2017	September 30 2016
Unsecured royalty obligation	\$ 1,587,969	1,845,647
ACOA-AIF unsecured royalty obligation	1,835,583	1,870,095
	<u>3,423,552</u>	<u>3,715,742</u>
less: current portion	(311,209)	(619,380)
Total long-term other financial liabilities	\$ 3,112,343	3,096,362

(a) Unsecured royalty obligation

During the year ended September 30, 2014, the Company received \$1,000,000 of financing in the form of an unsecured royalty arrangement. The agreement requires Bluedrop to pay a royalty of 1.0% of revenues in exchange for the principal provided.

On July 28, 2016, the Company amended the terms of the unsecured royalty obligation. The amended terms include a buyout option allowing the Company to extinguish 100% of all amounts owing upon payment of two times the royalty acquisition amount. Under the amended terms, the Company paid a minimum royalty of \$40,000 per month until May 31, 2017, after which time the minimum decreased to \$17,541 per month.

During the quarter, management revalued the unsecured royalty obligation due to a change forecasted future cashflows and as a result recognized a gain of \$277,756 (Note 14).

(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 June 30, 2017, \$361,008 has been repaid.

12. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

	Number of Shares	Share capital
Issued and outstanding at October 1, 2015	98,986,609	5,053,021
Shares repurchased and cancelled under normal course issuer bid	(1,436,000)	(71,800)
Shares issued upon exercise of convertible debenture	666,667	105,845
Issued and outstanding at September 30, 2016	<u>98,217,276</u>	<u>5,087,066</u>
Shares repurchased and cancelled under normal course issuer bid	(1,037,000)	(51,850)
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 June 30, 2017	<u>100,835,276</u>	<u>5,602,964</u>

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 June 30, 2017, 272,500 common shares had been repurchased under the new plan at an average price of \$0.18 per share. The new bid will expire March 30, 2018.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30In Canadian dollars

12. Share capital (continued)

During the nine months ended June 30, 2017, 1,037,000 shares were purchased for \$180,478. The purchases resulted in a decrease to share capital and deficit of \$51,850 and \$128,628, respectively.

(c) Share options	Number of options	Exercise price per share
Outstanding at October 1, 2015	16,560,391	\$0.15
Granted	800,000	\$0.12
Forfeitures	(974,178)	\$0.12
Expired	(1,782,776)	\$0.18
Outstanding at September 30, 2016	14,603,437	\$0.15
Forfeitures	(337,000)	\$0.07
Expired	(3,875,135)	\$0.25
Exercised	(155,000)	\$0.08
Outstanding at June 30, 2017	10,236,302	\$0.11
Exercisable at June 30, 2017	8,167,723	\$0.12

Pursuant to the Stock Option Plan, the Company has reserved a maximum of 16,827,718 of common shares of the Company for issuance on the exercise of share options. These options expire five years after the date of grant and vest over a three year period as follows: 10% at time of grant; 20% on the first anniversary; 20% on the second anniversary and 50% on the third anniversary.

The Company recorded \$39,603 of share-based compensation expense in the nine months ended June 30, 2017, relating to the Stock Option Plan (June 30, 2016 - \$63,656). 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 June 30, 2017, no shares were outstanding under the plan.

(e) Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit attributable to shareholders as the numerator with no adjustments required. The reconciliation of the weighted average number of shares for the purposes of basic and diluted earnings per share is as follows:

	Three months ended June 30		Nine months ended June 30	
	2017	2016	2017	2016
Common shares issued and outstanding, beginning of period	101,107,776	98,986,609	98,217,276	98,986,609
Weighted average shares issued through convertible debenture	-	-	2,409,314	-
Weighted average shares issued through exercise of share options	-	-	83,842	-
Weighted average shares purchased through normal course issuer bid	(154,944)	(548,583)	(698,250)	(180,852)
Weighted average number of shares used in basic earnings per share	100,952,832	98,438,026	100,012,182	98,805,757
Effect of share options on issue	4,080,812	3,726,186	4,378,072	1,051,670
Weighted average number of shares used in diluted earnings per share	105,033,644	102,164,212	104,390,254	99,857,427

For the three and nine months ended June 30, 2017, no share options (2016 - 3,739,300 and 10,777,630) and 20,000,000 shares on convertible notes (2016 - 24,166,667) were excluded from the calculation of diluted weighted average number of shares calculation because their effect would be anti-dilutive.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30

In Canadian dollars

13. Government assistance and other funding	Three months ended		Nine months ended	
	June 30		June 30	
	2017	2016	2017	2016
Government assistance included in income:				
National Research Council	\$ 50,532	126,505	99,111	303,376
Research & Development Corporation	-	121,397	9,378	237,400
Invest New Brunswick	-	905	-	15,905
Digital Media Tax Credits	195,156	521,501	733,028	901,172
Discounts on below-market interest rate financial instruments	-	-	423,503	-
Other indirect government assistance included in income:				
The Boeing Company - Funding under the Government of Canada's IRB Policy	138,573	579,977	822,809	1,563,490
	\$ 384,261	1,350,285	2,087,829	3,021,343

14. Finance costs	Three months ended		Nine months ended	
	June 30		June 30	
	2017	2016	2017	2016
Interest on long-term debt	\$ 151,054	147,532	475,296	494,045
Accretion of other financial liabilities	200,664	169,210	596,234	501,022
Accretion of long-term debt	66,273	70,695	167,088	232,407
Short-term interest and bank charges	8,704	6,491	38,150	13,503
Revaluation of financial liabilities	(337,400)	-	(337,400)	-
Interest on finance lease obligations	1,182	1,129	3,018	2,035
Other financing costs	6,466	1,188	2,498	17,161
Total finance costs	\$ 96,943	396,245	944,884	1,260,173

15. Changes in non-cash working capital

	2017	2016
Accounts receivable	\$ 17,216	(2,142,467)
Unbilled revenue	(883,369)	943,139
Other current assets	232,380	(318,691)
Other long-term assets	(237,327)	119,589
Accounts payable and accruals	(656,550)	906,712
Deferred revenue	(443,040)	(2,065,151)
Deferred development funding	(822,809)	(470,571)
	\$ (2,793,499)	(3,027,440)

Bluedrop Performance Learning Inc.

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16. Expenses classified by nature

Certain expenses are classified by function in the statement of comprehensive income. These include Direct costs, Sales and marketing, General and administration, and Research and development costs. A schedule of these expenses presented by nature is as follows:

	Three months ended June 30		Nine months ended June 30	
	2017	2016	2017	2016
Salaries and other labour costs	\$ 3,644,827	4,039,972	11,242,979	11,717,827
Materials, services and supplies	1,784,075	1,363,321	4,470,290	4,975,941
Travel and living	92,097	126,355	335,074	391,188
Occupancy	195,192	191,596	575,121	573,593
Professional fees	126,101	71,277	392,925	400,963
Other costs	130,392	219,448	418,703	587,325
Total expenses classified by nature	\$ 5,972,684	6,011,969	17,435,092	18,646,837

17. Related party transactions

Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Related party transactions include:

(a) Share purchase loans

The Company has provided share purchase loans to a director of the Company. As collateral for the non-interest bearing share purchase loans, the borrower has granted the Company a security interest in a portion of the shares purchased. The loans were renegotiated during the quarter and are repayable in full on or before December 31, 2019. As at June 30, 2017, the total amount receivable was \$169,816 (September 30, 2016 - \$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 the Company's beneficial controlling shareholder. The arrangement provides for the lease of 100% of the premises at 18 Prescott Street, St. John's, NL with an initial term of six years and has a four year renewal option. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter. During the nine months ended June 30, 2017, the Company incurred \$211,680 (2016 - \$211,680) 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.

	Three months ended June 30		Nine months ended June 30	
	2017	2016	2017	2016
Fees, salaries and benefits to key management personnel	172,925	172,925	516,261	642,406
Share based compensation to key management personnel	1,486	10,733	19,276	40,679

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18. Financial instruments

Financial instrument risk

(a) Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on transactions incurred in US dollars. During the nine months ended June 30, 2017, the Company recorded a \$10,312 loss on foreign currency (2016 - \$239,169). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the nine months ended June 30, 2017, the Company recorded revenue of \$10,219,379 from contracts denominated in US dollars (2016 - \$9,722,169). A 5% change in the U.S. dollar exchange rate would result in a \$510,969 impact on revenue recognized (2015 - \$486,108).

As at the June 30, 2017, the Company held receivables of \$1,501,531 from contracts denominated in US dollars (2016 - \$2,384,368). A 5% change in the US dollar exchange rate would result in a \$75,077 (2016 - \$119,218) impact on revenue recognized.

19. Segment reporting

Bluedrop's business is organized and managed as two complementary lines of e-Learning based training businesses.

Bluedrop Training and Simulation is one of Canada's leading providers of comprehensive training solutions for the defence sector. With over 40 years' experience and hundreds of training devices delivered it prides itself on its resume and skilled work force. Bluedrop Training and Simulation provides a full suite of products and services ranging from; training needs analysis and design, courseware and technical documentation, training information management systems, training program delivery, virtual reality based trainers and simulators and in service support for larger simulators and programs. It services all branches of the defence sector including naval, air force and army operations as well as other security agencies.

Bluedrop Learning Networks is pioneering the development and adoption of a SaaS based training and delivery platform providing large scale customers with the ability to engage, track training and monitor training of large users groups spread out of multiple locations. It provides the complete service offering and solutions to meet the operational requirements of its clients from designing the training requirement, to building custom content, to operating and supporting the training and delivery platform. Revenues are generated from, recurring platform licences, custom courseware development, consulting services, and the sale of commercial off-the-shelf courses.

Segment profit or loss includes revenues and costs directly attributable to the operations of the segment. In addition management allocates a portion of shared administrative costs based on the attributable office space of those segments. Segment information for the reporting periods is as follows:

Bluedrop Performance Learning Inc.

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Nine months ended June 30

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19. Segment reporting (continued)

	Nine months ended June 30, 2017			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 3,731,564	14,297,879	-	18,029,443
Direct costs	1,635,696	9,190,901	-	10,826,597
Gross profit	2,095,868	5,106,978	-	7,202,846
Expenses				
Sales and marketing	810,957	446,378	-	1,257,335
General and administration	423,013	834,291	2,086,354	3,343,658
Research and development costs	997,886	1,009,616	-	2,007,502
Government assistance and other funding	(234,910)	(1,429,416)	(423,503)	(2,087,829)
Share-based compensation	7,736	6,496	25,371	39,603
Finance costs	-	-	944,884	944,884
Depreciation and amortization	371,870	371,411	11,679	754,960
Other (gains) and losses	339,119	-	10,313	349,432
	2,715,671	1,238,776	2,655,098	6,609,545
(Loss) earnings before income taxes	\$ (619,803)	3,868,202	(2,655,098)	593,301

	Nine months ended June 30, 2016			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 3,532,148	15,770,838	-	19,302,986
Direct costs	1,573,928	9,007,736	-	10,581,664
Gross profit	1,958,220	6,763,102	-	8,721,322
Expenses				
Sales and marketing	1,227,274	411,558	9,421	1,648,253
General and administration	491,227	975,100	2,084,852	3,551,179
Research and development costs	1,077,250	1,788,491	-	2,865,741
Government assistance and other funding	(644,566)	(2,376,777)	-	(3,021,343)
Share-based compensation	14,864	15,175	33,617	63,656
Finance costs	-	-	1,260,173	1,260,173
Depreciation and amortization	464,550	309,942	11,700	786,192
Other (gains) and losses	-	-	231,519	231,519
	2,630,599	1,123,489	3,631,282	7,385,370
(Loss) earnings before income taxes	\$ (672,379)	5,639,613	(3,631,282)	1,335,952

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

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Nine months ended June 30

In Canadian dollars

19. Segment reporting (continued)

	Three months ended June 30, 2017			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 973,850	5,476,711	-	6,450,561
Direct costs	436,336	3,461,339	-	3,897,675
Gross profit	537,514	2,015,372	-	2,552,886
Expenses				
Sales and marketing	230,641	170,122	-	400,763
General and administration	136,476	269,791	639,384	1,045,651
Research and development costs	351,794	276,801	-	628,595
Government assistance and other funding	(110,532)	(273,729)	-	(384,261)
Share-based compensation	1,383	1,583	2,541	5,507
Finance costs	-	-	96,943	96,943
Depreciation and amortization	110,939	123,434	3,603	237,976
Other (gains) and losses	339,119	-	5,720	344,839
	1,059,820	568,002	748,191	2,376,013
(Loss) earnings before income taxes	\$ (522,306)	1,447,370	(748,191)	176,873

	Three months ended June 30, 2016			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,146,096	4,490,410	-	5,636,506
Direct costs	500,996	2,661,079	-	3,162,075
Gross profit	645,100	1,829,331	-	2,474,431
Expenses				
Sales and marketing	404,761	201,323	4,685	610,769
General and administration	144,772	319,443	691,034	1,155,249
Research and development costs	378,898	704,978	-	1,083,876
Government assistance and other funding	(436,692)	(913,593)	-	(1,350,285)
Share-based compensation	4,509	4,354	(4,170)	4,693
Finance costs	-	-	396,245	396,245
Depreciation and amortization	155,392	104,932	4,118	264,442
Other (gains) and losses	-	-	42,125	42,125
	651,640	421,437	1,134,037	2,207,114
(Loss) earnings before income taxes	\$ (6,540)	1,407,894	(1,134,037)	267,317

20. Subsequent event

Subsequent to period end, on August 10, 2017, the Company received additional proceeds of \$1,049,890 from the existing \$3.0 million funding contribution under the Atlantic Canada Opportunities Agency Business Development Program (Note 10). The loan has been recorded using the effective interest method and the difference between proceeds received and fair value will be recognized as government assistance during the fourth quarter.