

## **Bluedrop Performance Learning Inc.**

Condensed Consolidated Interim Financial Statements  
(Unaudited)

**Nine months ended June 30, 2018**

### **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**  
**2018** **2017**

In Canadian dollars

**ASSETS**

## Current assets

Cash	\$	1,590,234	2,149,369
Restricted cash (Note 3)		-	3,000,000
Accounts receivable (Note 4)		7,025,759	6,767,217
Unbilled revenue		467,672	672,595
Other current assets (Note 5)		889,903	1,370,797

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9,973,568 13,959,978

Deferred tax assets		5,269,497	5,101,620
Goodwill and other intangible assets (Note 6)		3,458,302	3,857,605
Property and equipment (Note 7)		269,710	446,355
Other long-term assets		169,816	169,816

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\$ 19,140,893 23,535,374

**LIABILITIES AND EQUITY**

## Current liabilities

Accounts payable and accruals	\$	1,957,274	2,817,304
Deferred revenue		4,107,048	3,373,469
Current portion of long-term debt (Note 8)		2,206,804	4,813,606
Other current liabilities		407,186	369,055

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8,678,312 11,373,434

Long-term debt (Note 8)		3,024,555	4,204,001
Discounted royalty obligations (Note 10)		3,576,142	3,167,693
Deferred tax liabilities		395,567	449,504
Other long-term liabilities		28,991	45,711

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15,703,567 19,240,343

## Equity

Share capital (Note 11)		5,473,314	5,547,489
Contributed surplus		1,643,176	1,633,535
Deficit		(3,679,164)	(2,885,993)

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3,437,326 4,295,031

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\$ 19,140,893 23,535,374

Approved on Behalf of the Board

Derrick H. Rowe  
DirectorEmad Rizkalla  
Director

**Bluedrop Performance Learning Inc.**

Consolidated Statements of Comprehensive Income (Loss)

Unaudited

**Nine months ended June 30**

In Canadian dollars

	<b>Three Months Ended June 30</b>		<b>Nine Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenue</b>				
Services revenue	\$ 3,678,586	4,090,358	\$ 11,219,229	12,295,574
Product sales	1,299,817	2,360,203	5,005,951	5,733,869
	4,978,403	6,450,561	16,225,180	18,029,443
Direct costs	2,640,351	3,897,675	9,763,493	10,826,597
<b>Gross profit</b>	2,338,052	2,552,886	6,461,687	7,202,846
<b>Expenses</b>				
Sales and marketing	531,129	400,763	1,318,687	1,257,335
General and administration	1,028,059	1,045,651	3,343,973	3,343,658
Research and development costs	881,363	628,595	2,111,757	2,007,502
Government assistance and other funding (Note 12)	(316,420)	(384,261)	(1,006,432)	(2,087,829)
Share-based compensation (Note 11)	2,464	5,507	9,641	39,603
Finance costs (Note 13)	323,339	96,943	1,032,526	944,884
Depreciation and amortization	178,921	237,976	630,201	754,960
Other (gains) and losses (Note 14)	(81,058)	344,839	(157,750)	349,432
	2,547,797	2,376,013	7,282,603	6,609,545
<b>(Loss) profit before income taxes</b>	(209,745)	176,873	(820,916)	593,301
Income tax (recovery) expense				
Deferred	(55,181)	92,076	(221,814)	489,784
	(55,181)	92,076	(221,814)	489,784
<b>Net (loss) profit and comprehensive (loss) income</b>	\$ (154,564)	84,797	\$ (599,102)	103,517
<b>Net (loss) profit per share</b>				
Basic	(0.0017)	0.0009	(0.0064)	0.0011
Diluted	(0.0017)	0.0009	(0.0064)	0.0010
<b>Weighted average number of shares outstanding</b> (Note 11)				
Basic	92,796,905	95,196,181	93,406,535	94,255,531
Diluted	92,796,905	99,276,993	93,406,535	98,633,603

## Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Nine months ended June 30

In Canadian dollars

	Ordinary Common Shares	Share Capital	Contributed Surplus - Share Options	Contributed Surplus - Convertible Notes	Deficit	Total
<b>October 1, 2016</b>	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 11)	(1,037,000)	(51,850)	-	-	(128,628)	(180,478)
Conversion of debenture (Note 8)	3,500,000	555,684	-	(30,684)	-	525,000
Net profit and comprehensive income	-	-	-	-	103,517	103,517
<b>June 30, 2017</b>	100,835,276	\$ 5,602,964	\$ 1,437,398	\$ 191,239	\$ (5,386,234)	\$ 1,845,367
Share-based compensation	-	-	4,898	-	-	4,898
Exercise of share options	-	-	-	-	-	-
Repurchase of shares under normal course issuer bid (Note 11)	(1,109,500)	(55,475)	-	-	(144,235)	(199,710)
Net profit and comprehensive income	-	-	-	-	2,644,476	2,644,476
<b>September 30, 2017</b>	99,725,776	\$ 5,547,489	\$ 1,442,296	\$ 191,239	\$ (2,885,993)	\$ 4,295,031
Share-based compensation	-	-	9,641	-	-	9,641
Repurchase of shares under normal course issuer bid (Note 11)	(1,483,500)	(74,175)	-	-	(194,069)	(268,244)
Net loss and comprehensive loss	-	-	-	-	(599,102)	(599,102)
<b>June 30, 2018</b>	98,242,276	\$ 5,473,314	\$ 1,451,937	\$ 191,239	\$ (3,679,164)	\$ 3,437,326

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**Bluedrop Performance Learning Inc.**

Consolidated Statements of Cash Flows

Unaudited

**Nine months ended June 30****2018****2017**

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In Canadian dollars

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

Net profit for the period	\$	(599,102)	103,517
Items not affecting cash:			
Share-based compensation		9,641	39,603
Depreciation and amortization		630,201	754,960
Non-cash government assistance		(107,509)	(423,503)
Finance costs		1,032,526	944,884
Deferred taxes		(221,814)	489,784
Unrealized loss on derivative instruments		161,224	(91,113)
Net foreign exchange differences		(233,569)	63,977
Interest paid		(28,168)	(40,648)
		643,430	1,841,461
Changes in non-cash working capital (Note 15)		242,964	(2,810,507)
<b>Net change in cash from operating activities</b>		886,394	(969,046)

**Investing activities**

Purchase of property and equipment		(54,253)	(104,185)
Decrease in restricted cash		3,000,000	-
<b>Net change in cash from investing activities</b>		2,945,747	(104,185)

**Financing activities**

Advances of long-term debt		385,537	1,564,564
Repayment of obligations under finance leases		(15,614)	(12,962)
Repayment of long-term debt		(4,326,390)	(862,713)
Repayment of other financial liabilities		(165,498)	(551,024)
Share options exercised		-	12,064
Repurchase of shares under normal course issuer bid		(268,244)	(180,478)
Interest paid		(162,588)	(463,692)
<b>Net change in cash from financing activities</b>		(4,552,797)	(494,241)

<b>Decrease in cash</b>		(720,656)	(1,567,472)
Cash and cash equivalents, beginning of period		2,149,369	3,111,352
Net foreign exchange impact on cash		161,521	(46,969)
<b>Cash, end of period</b>	\$	1,590,234	1,496,911

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## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

**Nine months ended June 30, 2018**

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In Canadian dollars

### 1. Nature of operations

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

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

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

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on August 23, 2018.

### 2. Basis of presentation

These condensed consolidated interim financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) and in accordance with International Accounting Standard (IAS) 34 Consolidated Interim Financial Reporting using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board (IASB). These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the preparation of the Company's audited annual financial statements for the year ended September 30, 2017. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended September 30, 2017.

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

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

### 3. Restricted cash

At September 30, 2016, the Company raised term debt to preserve working capital for growth and to fund its maturing debt obligations during the following fifteen months. Proceeds of the term debt were invested in a Guaranteed Investment Certificate and held by the Royal Bank of Canada under a cash collateral agreement as additional security for the term loan until a decision was made regarding conversion or repayment of the unsecured convertible term note (Note 8) which was due December 30, 2017. The proceeds of the term loan were presented as restricted cash in current assets on the consolidated statements of financial position. On November 17, 2017 the restricted cash balance was used to repay the unsecured convertible term note in full.

### 4. Accounts receivable

	<b>June 30 2018</b>	<b>September 30 2017</b>
Trade	\$ 3,718,543	3,060,842
Government assistance - digital media tax credits	3,073,426	3,492,256
Government assistance - other	152,767	208,651
Other	81,023	5,468
	<u>\$ 7,025,759</u>	<u>6,767,217</u>

Included in trade receivables at June 30, 2018 is an allowance for doubtful accounts for \$228,268 (September 30, 2017 - \$325,884). Provisions are recognized in other gains and losses on the consolidated statements of comprehensive income.

**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

**Nine months ended June 30, 2018**

In Canadian dollars

**5. Other current assets**

	<b>June 30 2018</b>	<b>September 30 2017</b>
Work in progress	\$ 585,490	936,282
Prepaid expenses	304,413	304,607
Derivative asset	-	129,908
	<b>\$ 889,903</b>	<b>1,370,797</b>

**6. Goodwill and other intangible assets**

	<b>Courseware and other</b>	<b>Technology</b>	<b>Customer Relationships</b>	<b>Goodwill</b>	<b>Total</b>
<b>Cost</b>					
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
June 30, 2018	\$ 61,815	3,142,103	2,905,000	1,853,131	7,962,049
<b>Accumulated amortization and impairment losses</b>					
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	-	162,624	236,679	-	399,303
June 30, 2018	\$ 61,815	2,861,681	1,580,251	-	4,503,747
<b>Carrying values</b>					
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
June 30, 2018	\$ -	280,422	1,324,749	1,853,131	3,458,302

**7. Property and equipment**

	<b>Computer equipment and software</b>	<b>Furniture fixtures and equipment</b>	<b>Vehicles</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Cost</b>					
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	54,253	-	-	-	54,253
June 30, 2018	\$ 885,137	805,886	46,967	193,956	1,931,946
<b>Accumulated depreciation</b>					
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	96,089	122,978	-	11,831	230,898
June 30, 2018	\$ 683,128	743,556	46,967	188,585	1,662,236
<b>Carrying values</b>					
October 1, 2016	\$ 186,286	373,588	-	33,290	593,164
September 30, 2017	\$ 243,845	185,308	-	17,202	446,355
June 30, 2018	\$ 202,009	62,330	-	5,371	269,710



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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

**Nine months ended June 30, 2018**In Canadian dollars

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**8. Long-term debt**

	<b>Term</b>	<b>June 30 2018</b>	<b>September 30 2017</b>
Unsecured convertible term note - 14%	(a) 2013-2017 \$	-	2,979,099
Term loan - 4.09%	2016-2019	1,859,270	2,778,533
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	211,989	304,685
Government of Nova Scotia - 5%	2013-2021	711,014	834,018
Atlantic Canada Opportunities Agency - non-interest bearing	(b) 2018-2023	2,295,402	1,848,324
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018	23,065	89,040
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019	130,619	183,908
		<u>5,231,359</u>	<u>9,017,607</u>
Less: current portion		<u>(2,206,804)</u>	<u>(4,813,606)</u>
Total long-term debt	\$	<u>3,024,555</u>	<u>4,204,001</u>

(a) Unsecured convertible term note - 14%

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

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

On February 23, 2017, the Company secured a \$3.0 million funding contribution under the Atlantic Canada Opportunities Agency Business Development Program to assist with working capital requirements for growth initiatives of the Company. The unsecured, non-interest bearing loan is repayable in 60 monthly installments of \$50,000 each commencing October 1, 2018.

On November 28, 2017, the Company made the final draw on the \$3.0 million funding contribution from Atlantic Canada Opportunities Agency. Proceeds on this draw were \$385,537. As of June 30, 2018, the Company has drawn the full \$3.0 million under this program (September 30, 2017 - \$2,614,464). The loan has been recorded using the effective interest method and the difference between the proceeds received and fair value is recognized as government assistance (Note 12).

(c) Strategic Innovation Fund

On May 16, 2018, it was announced that the Company will receive a repayable investment of up to \$7.6 million through the federal government Strategic Innovation Fund. The funding will be used to support research and development and will help to create and maintain employment by supporting the design and development of next generation aerospace and marine simulation and training products. No funds have been drawn as at June 30, 2018.

**9. Operating loans**

The Company has a short-term bank operating line of credit to a maximum of the lesser of \$2,500,000 and defined marginable accounts receivable minus specified liabilities. The revolving operating facility is repayable on demand and bears interest at Royal Bank prime plus 2.20%. The Company has provided a General Security Agreement as security for this indebtedness. The line of credit was undrawn as at June 30, 2018 (September 30, 2017 - undrawn).

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

**Nine months ended June 30, 2018**In Canadian dollars

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**10. Discounted royalty obligations**

	<b>June 30</b>	<b>September 30</b>
	<b>2018</b>	<b>2017</b>
Unsecured royalty obligation	\$ 1,878,223	1,657,160
ACOA-AIF unsecured royalty obligation	2,051,684	1,858,589
	3,929,907	3,515,749
less: current portion	(353,765)	(348,056)
Total long-term other financial liabilities	\$ 3,576,142	3,167,693

**(a) Unsecured royalty obligation**

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

**(b) ACOA-AIF unsecured Royalty obligation**

The Company has recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,984,419 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and product related services resulting from the research funded. As of June 30, 2018, \$359,479 has been repaid.

**11. Share capital****(a) Authorized**

Unlimited common shares without par value

**(b) Common shares issued and outstanding**

	<b>Number of</b>	<b>Share</b>
	<b>Shares</b>	<b>capital</b>
Issued and outstanding at October 1, 2016	98,217,276	\$ 5,087,066
Shares repurchased and cancelled under normal course issuer bid	(2,146,500)	(107,325)
Shares issued upon exercise of share options	155,000	12,064
Shares issued upon exercise of convertible debenture	3,500,000	555,684
Issued and outstanding at September 30, 2017	99,725,776	5,547,489
Shares repurchased and cancelled under normal course issuer bid	(1,483,500)	(74,175)
Issued and outstanding at June 30, 2018	98,242,276	\$ 5,473,314

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. 2,200,500 common shares were 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 June 30, 2018, 647,500 common shares had been repurchased under the plan at an average price of \$0.18 per share. The new bid will expire on March 30, 2019.

During the nine months ended June 30, 2018, 1,483,500 shares were purchased for \$268,244. The purchases resulted in a decrease to share capital and deficit of \$74,175 and \$194,069, respectively.

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

**Nine months ended June 30, 2018**In Canadian dollars

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**11. Share capital (continued)**

(c) Share options	<b>Number of options</b>	<b>Exercise price per share</b>
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
<b>Outstanding at September 30, 2017</b>	<b>10,043,517</b>	<b>\$0.11</b>
Outstanding at June 30, 2018	10,043,517	\$0.11
Exercisable at June 30, 2018	9,012,867	\$0.12

Pursuant to the Stock Option Plan, the Company has reserved a maximum of 16,827,718 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 \$9,641 of share-based compensation expense in the nine months ended June 30, 2018, relating to the Stock Option Plan (2017 - \$39,603). 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, 2018, no shares were outstanding under the plan.

**(e) Earnings per share**

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

	<b>Three months ended June 30</b>		<b>Nine months ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Common shares issued and outstanding, beginning of period	98,889,776	101,107,776	99,725,776	98,217,276
Weighted average shares issued through convertible debentures	-	-	-	2,409,314
Weighted average shares issued through exercise of share options	-	-	-	83,842
Weighted average shares purchased through normal course issuer bid	(336,220)	(154,944)	(562,590)	(698,250)
Weighted average shares in treasury stock	(5,756,651)	(5,756,651)	(5,756,651)	(5,756,651)
<b>Weighted average number of shares used in basic earnings per share</b>	<b>92,796,905</b>	<b>95,196,181</b>	<b>93,406,535</b>	<b>94,255,531</b>
Effect of share options on issue	-	4,080,812	-	4,378,072
<b>Weighted average number of shares used in diluted earnings per share</b>	<b>92,796,905</b>	<b>99,276,993</b>	<b>93,406,535</b>	<b>98,633,603</b>

For the three and nine months ended June 30, 2018, 10,043,517 share options and 20,000,000 convertible debentures were excluded from the calculation of diluted weighted average number of shares calculation because their effect would be anti-dilutive. For the three and nine months ended June 30, 2017, 23,500,000 shares on convertible notes 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

Nine months ended June 30, 2018

In Canadian dollars

### 12. Government assistance and other funding

	Three months ended June 30		Nine months ended June 30	
	2018	2017	2018	2017
Government assistance included in income:				
National Research Council	\$ 176,507	50,532	525,353	99,111
Research & Development Corporation	42,446	-	124,853	9,378
Digital Media Tax Credits	95,904	195,156	244,649	733,028
Discounts on below-market interest rate debt (Note 8)	-	-	107,509	423,503
Other assistance	1,563	-	4,068	-
Other indirect government assistance included in income:				
The Boeing Company - Funding under the Government of Canada's IRB Policy	-	138,573	-	822,809
	\$ 316,420	384,261	1,006,432	2,087,829

### 13. Finance costs

	Three months ended June 30		Nine months ended June 30	
	2018	2017	2018	2017
Interest on long-term debt	\$ 33,651	151,054	169,194	475,296
Accretion of other financial liabilities	197,546	200,664	579,656	596,234
Accretion of long-term debt	75,048	66,273	252,229	167,088
Short-term interest and bank charges	9,301	8,704	17,604	38,150
Revaluation of financial liabilities	-	(337,400)	-	(337,400)
Interest on finance lease obligations	1,004	1,182	3,279	3,018
Other financing costs	6,789	6,466	10,564	2,498
Total finance costs	\$ 323,339	96,943	1,032,526	944,884

### 14. Other (gains) and losses

	Three months ended June 30		Nine months ended June 30	
	2018	2017	2018	2017
Foreign exchange loss (gain)	17,537	5,720	(43,026)	10,313
Bad debt expense (recovery)	(98,595)	339,119	(114,724)	339,119
Total other (gains) and losses	\$ (81,058)	344,839	(157,750)	349,432

### 15. Changes in non-cash working capital

	2018	2017
Accounts receivable	\$ (177,414)	(6,567)
Unbilled revenue	204,923	(883,369)
Other current assets	350,986	232,380
Other long-term assets	-	(237,327)
Accounts payable and accruals	(869,110)	(649,775)
Deferred revenue	733,579	(443,040)
Deferred development funding	-	(822,809)
	\$ 242,964	(2,810,507)

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended June 30, 2018

In Canadian dollars

### 16. Expenses classified by nature

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

	Three months ended June 30		Nine months ended June 30	
	2018	2017	2018	2017
Salaries and other labour costs	\$ 3,577,618	3,644,827	10,970,495	11,242,979
Materials, services and supplies	897,330	1,784,075	3,819,853	4,470,290
Travel and living	169,010	92,097	421,724	335,074
Occupancy	206,918	195,192	612,632	575,121
Professional fees	113,577	126,101	335,673	392,925
Other costs	116,449	130,392	377,533	418,703
Total expenses classified by nature	\$ 5,080,902	5,972,684	16,537,910	17,435,092

### 17. Related party transactions

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

#### (a) Share purchase loans

The Company has provided share purchase loans to a company controlled by Derrick Rowe, the Executive Chairman of the Company. As collateral for the non-interest bearing share purchase loans, the borrower has granted the Company a security interest in a portion of the shares purchased. As at June 30, 2018, the total amount receivable was \$169,816 (September 30, 2017 - \$169,816) and are included in other long-term assets on the statements of financial position.

#### (b) Rental lease

Effective October 1, 2011, the Company entered into a rental lease with an entity controlled by Emad Rizkalla, the Company's beneficial controlling shareholder. The arrangement provides for the lease of 100% of the premises at 18 Prescott Street, St. John's, NL with an initial term of six years and has a four year renewal option. On September 28, 2017, the Company renewed the lease for the four year renewal term, which expires on September 30, 2021. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter. During the nine months ended June 30, 2018, the Company incurred \$219,240 (2017 - \$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	
	2018	2017	2018	2017
Fees, salaries and benefits to key management personnel	\$ 172,925	172,925	594,475	770,261
Share based compensation to key management personnel	\$ 777	1,486	2,808	19,276

### 18. Financial instruments

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, 2018, the Company recorded a \$43,026 gain on foreign currency (2017 - \$10,313 loss). 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, 2018, the Company recorded revenue of \$8,156,757 from contracts denominated in US dollars (2017 - \$10,219,379). As at June 30, 2018, the Company held receivables of \$2,955,037 from contracts denominated in US dollars (September 30, 2017 - \$1,759,340).

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended June 30, 2018

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### 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 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:

	Nine months ended June 30, 2018			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 2,515,689	13,709,491	-	16,225,180
Direct costs	1,152,214	8,611,279	-	9,763,493
<b>Gross profit</b>	<b>1,363,475</b>	<b>5,098,212</b>	<b>-</b>	<b>6,461,687</b>
<b>Expenses</b>				
Sales and marketing	859,301	459,386	-	1,318,687
General and administration	444,504	1,001,102	1,898,367	3,343,973
Research and development costs	1,035,319	1,076,438	-	2,111,757
Government assistance and other funding	(592,373)	(316,017)	(98,042)	(1,006,432)
Share-based compensation	1,709	2,824	5,108	9,641
Finance costs	-	-	1,032,526	1,032,526
Depreciation and amortization	253,967	364,769	11,465	630,201
Other (gains) and losses	(140,633)	(60,795)	43,678	(157,750)
	1,861,794	2,527,707	2,893,102	7,282,603
<b>(Loss) earnings before income taxes</b>	<b>\$ (498,319)</b>	<b>2,570,505</b>	<b>(2,893,102)</b>	<b>(820,916)</b>

	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
<b>Gross profit</b>	<b>2,095,868</b>	<b>5,106,978</b>	<b>-</b>	<b>7,202,846</b>
<b>Expenses</b>				
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
<b>(Loss) earnings before income taxes</b>	<b>\$ (619,803)</b>	<b>3,868,202</b>	<b>(2,655,098)</b>	<b>593,301</b>

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Nine months ended June 30, 2018

In Canadian dollars

### 19. Segment reporting (continued)

	Three months ended June 30, 2018			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 933,765	4,044,638	-	4,978,403
Direct costs	410,421	2,229,930	-	2,640,351
<b>Gross profit</b>	<b>523,344</b>	<b>1,814,708</b>	<b>-</b>	<b>2,338,052</b>
<b>Expenses</b>				
Sales and marketing	329,587	201,542	-	531,129
General and administration	168,308	330,157	529,594	1,028,059
Research and development costs	395,606	485,757	-	881,363
Government assistance and other funding	(212,618)	(116,275)	12,473	(316,420)
Share-based compensation	444	565	1,455	2,464
Finance costs	-	-	323,339	323,339
Depreciation and amortization	53,462	121,631	3,828	178,921
Other (gains) and losses	(106,126)	(46,068)	71,136	(81,058)
	628,663	977,309	941,825	2,547,797
<b>(Loss) earnings before income taxes</b>	<b>\$ (105,319)</b>	<b>837,399</b>	<b>(941,825)</b>	<b>(209,745)</b>

	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
<b>Gross profit</b>	<b>537,514</b>	<b>2,015,372</b>	<b>-</b>	<b>2,552,886</b>
<b>Expenses</b>				
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
<b>(Loss) earnings before income taxes</b>	<b>\$ (522,306)</b>	<b>1,447,370</b>	<b>(748,191)</b>	<b>176,873</b>

### 20. Comparative figures

Certain comparative figures have been reclassified to conform with the June 30, 2018 financial statement presentation.