

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements **Three months ended December 31, 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

December 31 2018 **September 30 2018**

In Canadian dollars

ASSETS

Current assets

Cash	\$	672,019	1,638,177
Accounts receivable (Note 4)		4,910,685	6,992,395
Contract assets		203,878	46,245
Other current assets (Note 5)		1,287,570	953,182
		7,074,152	9,629,999

Deferred tax assets		5,494,762	5,071,270
Goodwill and other intangible assets (Note 6)		3,244,123	3,363,436
Property and equipment (Note 7)		413,920	223,664
Other long-term assets		-	169,816
	\$	16,226,957	18,458,185

LIABILITIES AND EQUITY

Current liabilities

Accounts payable and accruals	\$	2,216,507	2,005,146
Contract liabilities		3,000,893	3,920,458
Current portion of long-term debt (Note 8)		1,850,730	2,295,078
Other current liabilities		305,677	230,295
		7,373,807	8,450,977

Long-term debt (Note 8)		2,508,502	2,646,475
Discounted royalty obligations (Note 9)		3,854,931	3,697,531
Deferred tax liabilities		359,609	377,588
Other long-term liabilities		17,355	23,223
		14,114,204	15,195,794

Equity

Share capital (Note 10)		5,452,664	5,457,889
Contributed surplus		1,646,181	1,645,422
Deficit		(4,986,092)	(3,840,920)
		2,112,753	3,262,391
	\$	16,226,957	18,458,185

Approved on Behalf of the Board

Subsequent events (Note 19)

Derrick H. Rowe
DirectorEmad Rizkalla
Director

Bluedrop Performance Learning Inc.

Consolidated Statements of Comprehensive Income (Loss)

Three months ended December 31**2018****2017**

In Canadian dollars

Revenue

Courseware development services	\$	1,166,552	1,629,176
In-service support		2,062,214	2,034,617
Software licensing and subscriptions		659,943	467,335
Simulation products		-	991,075
		3,888,709	5,122,203
Direct costs		2,322,823	3,248,589
Gross profit		1,565,886	1,873,614

Expenses

Sales and marketing		563,551	381,706
General and administration		1,256,598	1,145,961
Research and development costs		1,168,890	507,478
Government assistance and other funding (Note 11)		(252,919)	(325,420)
Share-based compensation (Note 10)		759	3,750
Finance costs (Note 12)		293,191	394,916
Depreciation and amortization		170,571	216,999
Other (gains) and losses (Note 13)		(55,927)	(2,997)
		3,144,714	2,322,393
Profit (loss) before income taxes		(1,578,828)	(448,779)

Income tax (recovery) expense

Current		-	-
Deferred		(441,471)	(125,098)
		(441,471)	(125,098)

Net profit (loss) and comprehensive income (loss)

\$ (1,137,357) (323,681)

Net profit (loss) per share

Basic	\$	(0.01)	(0.00)
Diluted	\$	(0.01)	(0.00)

Weighted average number of shares outstanding (Note 10)

Basic		92,126,394	93,809,359
Diluted		92,126,394	93,809,359

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Three months ended December 31

In Canadian dollars

	Ordinary Common Shares	Share Capital	Contributed surplus	Equity component of convertible debentures	Deficit	Total
October 1, 2017	99,725,776	\$ 5,547,489	\$ 1,442,296	\$ 191,239	\$ (2,885,993)	\$ 4,295,031
Share-based compensation	-	-	3,750	-	-	3,750
Repurchase of shares under normal course issuer bid (Note 10)	(242,000)	(12,100)	-	-	(32,201)	(44,301)
Conversion of debenture	-	-	191,239	(191,239)	-	-
Net profit and comprehensive income	-	-	-	-	(323,681)	(323,681)
December 31, 2017	99,483,776	\$ 5,535,389	\$ 1,637,285	\$ -	\$ (3,241,875)	\$ 3,930,799
Share-based compensation	-	-	8,137	-	-	8,137
Repurchase of shares under normal course issuer bid (Note 10)	(1,550,000)	(77,500)	-	-	(192,410)	(269,910)
Net profit and comprehensive income	-	-	-	-	(406,635)	(406,635)
September 30, 2018	97,933,776	\$ 5,457,889	\$ 1,645,422	\$ -	\$ (3,840,920)	\$ 3,262,391
Share-based compensation	-	-	759	-	-	759
Repurchase of shares under normal course issuer bid (Note 10)	(104,500)	(5,225)	-	-	(7,815)	(13,040)
Net profit (loss) and comprehensive income (loss)	-	-	-	-	(1,137,357)	(1,137,357)
December 31, 2018	97,829,276	\$ 5,452,664	\$ 1,646,181	\$ -	\$ (4,986,092)	\$ 2,112,753

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Three months ended December 31**2018****2017**

In Canadian dollars

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

Net profit (loss) for the period	\$	(1,137,357)	(323,681)
Items not affecting cash:			
Share-based compensation		759	3,750
Depreciation and amortization		170,571	216,999
Non-cash government assistance		(193,189)	(107,509)
Finance costs		293,191	394,916
Deferred taxes		(441,471)	(125,098)
Unrealized gain on derivative instruments		107,381	100,942
Net foreign exchange differences		(113,459)	(132,788)
Interest received (paid)		20,106	(4,904)
		(1,293,468)	22,627
Changes in non-cash working capital (Note 14)		1,071,482	(322,836)
Net change in cash from operating activities		(221,986)	(300,209)

Investing activities

Purchase of property and equipment		(241,514)	(7,249)
Decrease in restricted cash		-	3,000,000
Net change in cash from investing activities		(241,514)	2,992,751

Financing activities

Advances of long-term debt		256,065	385,537
Repayment of obligations under finance leases		(5,478)	(5,115)
Repayment of long-term debt		(725,489)	(3,378,230)
Repayment of other financial liabilities		(52,625)	(53,221)
Share options exercised		-	-
Repurchase of shares under normal course issuer bid		(13,040)	(44,301)
Interest paid		(22,980)	(96,074)
Net change in cash from financing activities		(563,547)	(3,191,404)

Decrease in cash

		(1,027,047)	(498,862)
Cash and cash equivalents, beginning of period		1,638,177	2,149,369
Net foreign exchange impact on cash		60,889	107,205
Cash, end of period	\$	672,019	1,757,712

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2018

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 Segment
Bluedrop Training & Simulation Inc.
Bluedrop Simulation Services Inc.

Bluedrop Learning Networks Segment
Bluedrop Learning Networks 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 condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on February 26, 2019.

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, 2018, except as identified in Note 3. 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, 2018.

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. Adoption of new accounting standards

(a) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 has been adopted by the Company retrospectively. The adoption of this standard had no impact on amounts recognized in the consolidated financial statements of the Company.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit & loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments.

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2018

In Canadian dollars

3. Adoption of new accounting standards (continued)

(a) IFRS 9 Financial Instruments (continued)

The following table illustrates the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the company's financial assets and financial liabilities.

Asset/Liability	Original classification under IAS 39	New classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Derivative asset	Fair value through profit and loss	Fair value through profit and loss
Accounts payable and accruals	Other financial liabilities	Other financial liabilities
Long-term debt	Other financial liabilities	Other financial liabilities
Other financial liabilities	Other financial liabilities	Other financial liabilities

The adoption of IFRS 9 classification amendments had no significant impact on the measurement of financial liabilities in the consolidated financial statements of the Company.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39. For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

For trade receivables, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into considerations historical credit loss experience and financial factors specific to the debtors and general economic conditions.

The Company has determined that the application of IFRS 9's impairment requirements had no impact on the consolidated financial statements.

Hedge accounting

The new general hedge accounting model in IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Company has no designated hedging relationships. As such, the adoption of the IFRS 9 hedge accounting requirements had no impact on the consolidated financial statements.

(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.

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2018

In Canadian dollars

3. Adoption of new accounting standards (continued)

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

The Company has adopted IFRS 15 using the full retrospective method as of October 1, 2017 and has determined that there is no change to amounts recognized in the comparative periods as a result of the adoption of the standard. The company had elected to use the following practical expedients:

- 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;
- 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, we will not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Company expects to recognize that amount as revenue.

In accordance with IFRS 15, contracts with customers are presented in statement of financial position as a 'contract asset', or 'contract liability'. 'Contract assets' are recognized when goods or services have been transferred to the customer prior to billings. 'Contract liabilities' are recognized when customer payments are provided (or due) prior to transfer of goods or services to the customer. Previously, the Company presented these balances as 'unbilled revenue' and 'deferred revenue' respectively. Accordingly, the Company has updated the financial statement captions to reflect the terminology included in the new standard.

In addition, the Company has disaggregated revenue from contracts with customers by major product/service category for each of our segments as we believe this best depicts how the nature, amount, timing and uncertainty of revenue are affected by cash flows are affected by economic conditions.

In accordance with the new standard, the Company determines the amount and timing of revenue recognition in accordance with the five-step model as follows:

- (i) Identify the contract with a customer
- (ii) Identify the performance obligations in the contract
- (iii) Determine the transaction price
- (iv) Allocate the transaction price to the performance obligations in the contract
- (v) Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company has updated its accounting policies to reflect guidance provided by IFRS 15 as follows:

Contracts with multiple performance obligations

The Company often enters into contracts with customers involving the supply of multiple products and services. The consideration received from multiple-component transactions is allocated to each separately identifiable performance obligation on the basis of its stand-alone selling price, or based on the residual method, as applicable. The Company applies the revenue recognition policies set out below to each performance obligation in the contract.

Courseware development services

The Company generates revenue from services provided under custom courseware development contracts and consulting arrangements. Custom courseware development contract revenues are recognized over time using the input cost method, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Consulting arrangements are typically completed under time and materials type contracts, whereby performance obligations are primarily labour based and revenues are recognized at a point in time as the services are delivered to the customer.

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2018

In Canadian dollars

3. Adoption of new accounting standards (continued)

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

In-service support

In Service Support revenues are generated from providing long term support services to in-service training programs. For time and materials type contracts, performance obligations are primarily labour based and revenues are recognized over time as the services are delivered to the customer. For fixed price arrangements, revenues are recognized over time using the cost input method, measured by the percentage of costs incurred to date to the estimated total costs for each contract.

Software licensing and subscriptions

Subscription revenues are generated from contracts whereby the Company provides a licence to customers to access the Company's learning management solutions, namely CoursePark™ and Bluedrop360™, cloud-based learning management solutions and Campus™ and Learninglogics™, traditional learning management systems. Revenues for cloud-based learning management systems are recognized over time using the time elapsed output method.

For perpetual licensing arrangements, revenue is recognized at a point in time when the product is delivered to the customer and ownership is transferred to the customer.

The Company's performance obligations with respect to license support contracts are to provide customers with technical support as needed and unspecified software product upgrades, maintenance releases and patches during the term of the support period when they are available.

The Company is obligated to make the license and hardware support services available continuously throughout the contract period. Therefore, revenues for license support contracts are generally recognized over the contractual periods that the support services are provided.

Simulation products

Simulation product revenues are generated from the design and supply of simulation training devices. Revenues are recognized over time using the cost input method, if the Company determines that these devices have no alternative use and the Company has an enforceable right to payment for work completed to date. When the company determines that there is an alternative use for the device, revenue is recognized when the customer obtains control on completion.

4. Accounts receivable

	December 31 2018	September 30 2018
Trade	\$ 3,167,148	3,552,948
Government assistance - digital media tax credits	1,514,450	3,053,484
Government assistance - other	201,207	360,112
Other	27,880	25,851
	<u>\$ 4,910,685</u>	<u>6,992,395</u>

Included in trade receivables at December 31, 2018 is an allowance for doubtful accounts for \$239,889 (September 30, 2018 - \$222,536).

5. Other current assets

	December 31 2018	September 30 2018
Work in progress	\$ 607,019	607,019
Prepaid expenses	510,735	313,774
Derivative asset	-	32,389
Share purchase loan	169,816	-
	<u>\$ 1,287,570</u>	<u>953,182</u>

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2018

In Canadian dollars

6. Goodwill and other intangible assets

	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost					
October 1, 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
Disposals	-	(903,061)	-	-	(903,061)
December 31, 2018	\$ 61,815	2,239,042	2,905,000	1,853,131	7,058,988
Accumulated amortization and impairment losses					
October 1, 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
Amortization	-	40,420	78,893	-	119,313
Disposals	-	(903,061)	-	-	(903,061)
December 31, 2018	\$ 61,815	2,015,014	1,738,036	-	3,814,865
Carrying values					
October 1, 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
December 31, 2018	\$ -	224,028	1,166,964	1,853,131	3,244,123

During the quarter ended December 31, 2018, the Company disposed of the Campus learning management system technology. The technology was fully depreciated with no remaining carrying value.

7. Property and equipment

	Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost					
October 1, 2017	\$ 830,884	805,886	46,967	193,956	1,877,693
Additions	74,666	11,343	-	-	86,009
Disposals	-	-	(46,967)	-	-
September 30, 2018	\$ 905,550	817,229	-	193,956	1,963,702
Additions	237,718	3,796	-	-	241,514
Disposals	-	-	-	-	-
December 31, 2018	\$ 1,143,268	821,025	-	193,956	2,205,216
Accumulated depreciation					
October 1, 2017	\$ 587,039	620,578	46,967	176,754	1,431,338
Depreciation	130,169	162,798	-	15,733	308,700
Disposals	-	-	(46,967)	-	-
September 30, 2018	\$ 717,208	783,376	-	192,487	1,740,038
Depreciation	46,917	5,320	-	(979)	51,258
Disposals	-	-	-	-	-
December 31, 2018	\$ 764,125	788,696	-	191,508	1,791,296
Carrying values					
October 1, 2017	\$ 243,845	185,308	-	17,202	446,355
September 30, 2018	\$ 188,342	33,853	-	1,469	223,664
December 31, 2018	\$ 379,143	32,329	-	2,448	413,920

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2018

In Canadian dollars

8. Long-term debt and operating facilities

		December 31	September 30
	Term	2018	2018
Term loan - 4.09%	(a) 2016-2019	1,052,997	1,516,251
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	(b) 2016-2019	146,232	179,519
Government of Nova Scotia - 5%	(c) 2013-2021	626,756	669,029
Atlantic Canada Opportunities Agency - non-interest bearing	(d) 2018-2023	2,261,338	2,353,268
Atlantic Canada Opportunities Agency - non-interest bearing	(e) 2015-2019	90,911	111,208
Strategic Innovation Fund - non-interest bearing	(g) 2025-2039	180,998	112,278
		4,359,232	4,941,553
less: current portion		(1,850,730)	(2,295,078)
Total long-term debt		\$ 2,508,502	2,646,475

(a) 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.

(b) 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.

(c) 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. 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.

(d) 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.

(e) 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.

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2018In Canadian dollars

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

(f) 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 December 31, 2018 the Company has drawn \$719,034 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 11).

(g) 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 December 31, 2018 (September 30, 2018 - undrawn).

9. Discounted royalty obligations

	December 31	September 30
	2018	2018
Unsecured royalty obligation	\$ 1,895,949	1,812,427
ACOA-AIF unsecured royalty obligation	2,166,789	2,092,911
	4,062,738	3,905,338
less: current portion (included in other current liabilities)	(207,807)	(207,807)
Total long-term other financial liabilities	\$ 3,854,931	3,697,531

(a) Unsecured royalty obligation

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

(b) ACOA-AIF unsecured Royalty obligation

The Company has recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,984,419 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and product related services resulting from the research funded. As of December 31, 2018, \$449,709 (September 30, 2018 - 449,709) has been repaid.

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended December 31, 2018

In Canadian dollars

10. 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, 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
Shares repurchased and cancelled under normal course issuer bid	(104,500)	(5,225)
Issued and outstanding at December 31, 2018	97,829,276	\$ 5,452,664

Included in the total above are 5,756,651 shares relating to share purchase loans to a director of the Company (Note 16). 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, 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 December 31, 2018, 1,060,500 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 three month ended December 31, 2018, 104,500 shares were purchased for \$13,040. The purchases resulted in a decrease to share capital and deficit of \$5,225 and \$7,815, respectively. The 29,500 shares that were repurchased in December 2018 were cancelled on January 3, 2019. 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.

(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 \$759 of share-based compensation expense in the three months ended December 31, 2018, relating to the Stock Option Plan (2017 - \$3,750). 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 three months ended December 31, 2018 (2017 - none).

	Number of options	Weighted average Exercise price per share
Outstanding at October 1, 2017	10,043,517	\$0.11
Outstanding at September 30, 2018	10,043,517	\$0.11
Outstanding at December 31, 2018	10,043,517	\$0.11
Exercisable at December 31, 2018	9,793,517	\$0.11

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10. Share capital (continued)

(c) Share options (continued)

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	0.18 years
\$0.07	March 5, 2020	1,017,343	1,017,343	1.18 years
\$0.08	May 29, 2020	250,000	250,000	1.41 years
\$0.08	September 30, 2020	1,521,300	1,521,300	1.75 years
\$0.11	March 8, 2021	400,000	200,000	2.19 years
\$0.18	September 23, 2021	100,000	50,000	2.73 years
\$0.11		10,043,517	9,793,517	0.65 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 December 31, 2018, no shares were outstanding under the plan (September 30, 2018 - none).

(e) Earnings (loss) per share

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

	2018	2017
Common shares issued and outstanding, beginning of year	97,933,776	99,725,776
Weighted average shares purchased through normal course issuer bid	(50,731)	(159,766)
Weighted average shares in treasury stock	(5,756,651)	(5,756,651)
Weighted average number of shares used in basic and diluted earnings per share	92,126,394	93,809,359

For the three month ended December 31, 2018, 10,043,017 share options (2017 - 10,043,017) and no shares on convertible notes (2017 - 20,000,000) were excluded from the calculation of diluted weighted average number of shares calculation as their effect would be anti-dilutive.

11. Government assistance and other funding

	2018	2017
Government assistance included in income:		
National Research Council	\$ -	139,390
Research & Development Corporation	-	39,856
Digital Media Tax Credits	55,235	38,070
Discounts on below-market interest rate debt (Note 8)	193,189	107,509
Other government assistance	4,495	595
	\$ 252,919	325,420

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12. Finance costs

	2018	2017
Interest on long-term debt	\$ 28,742	98,591
Accretion of other financial liabilities	210,024	188,927
Accretion of long-term debt	73,711	101,313
Short-term interest and bank charges	4,161	3,005
Interest on finance lease obligations	820	1,182
Other finance costs	(24,267)	1,898
Total finance costs	\$ 293,191	394,916

13. Other (gains) and losses

	2018	2017
(Gain) loss on disposal	\$ (64,841)	-
Foreign exchange (gain) loss	8,914	(2,997)
Total other (gains) and losses	\$ (55,927)	(2,997)

14. Changes in non-cash working capital

	2018	2017
Accounts receivable	\$ 2,150,676	1,153,988
Contract assets	(157,633)	321,595
Other current assets	(366,777)	(430,723)
Other long-term assets	169,816	-
Accounts payable and accruals	194,965	(422,335)
Contract liabilities	(919,565)	(945,361)
Deferred development funding	-	-
	\$ 1,071,482	(322,836)

15. 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	\$ 4,055,142	3,409,927
Materials, services and supplies	581,846	1,295,217
Travel and living	145,429	125,724
Occupancy	198,001	203,828
Professional fees	162,111	116,023
Other costs	169,333	133,015
Total expenses classified by nature	\$ 5,311,862	5,283,734

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16. 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 December 31, 2018, the total amount receivable was \$169,816 (September 30, 2018 - \$169,816) and is included in other current assets on the statements of financial position (September 30, 2018 - other long-term assets).

(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 three months ended December 31, 2018, the Company incurred \$73,080 (2017 - \$73,080) 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	\$ 183,425	\$ 170,525
Share based compensation to key management personnel	\$ -	\$ 1,054

17. 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 three months ended December 31, 2018, the Company recorded a \$8,914 loss on foreign currency (2017 - \$2,997 gain). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the three months ended December 31, 2018, the Company recorded revenue of \$1,863,554 from contracts denominated in US dollars (2017 - \$3,113,866). As at December 31, 2018, the Company held receivables of \$2,620,626 from contracts denominated in US dollars (September 30, 2018 - \$2,749,315).

Non-hedge designated derivative instruments

On December 31, 2018, the Company held 3 outstanding foreign exchange contracts with various maturities to February 2019 to sell US\$1,200,000 into Canadian dollars at rates averaging CA\$1.30 to yield \$1,560,000. On December 31, 2018, the Company recorded a derivative liability of \$74,992 included in other current assets representing the fair value of these outstanding contracts.

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18. Segment reporting

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

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

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

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

	2018			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,036,258	2,852,451	-	3,888,709
Direct costs	402,577	1,920,246	-	2,322,823
Gross profit	633,681	932,205	-	1,565,886
Expenses				
Sales and marketing	382,983	180,568	-	563,551
General and administration	193,531	322,602	740,465	1,256,598
Research and development costs	710,917	457,973	-	1,168,890
Government assistance and other funding	-	(59,730)	(193,189)	(252,919)
Share-based compensation	213	273	273	759
Finance costs	-	-	293,191	293,191
Depreciation and amortization	69,712	97,499	3,360	170,571
Other (gains) and losses	(65,140)	(55,220)	64,433	(55,927)
	1,292,216	943,965	908,533	3,144,714
(Loss) earnings before income taxes	\$ (658,535)	(11,760)	(908,533)	(1,578,828)

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

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19. Subsequent events

Subsequent to the statement of financial position date, the Company made an additional draws against the \$7.6 million repayable investment under the Strategic Innovation Fund Program (Note 8). Proceeds of these draws were \$214,367 and the difference between proceeds received and fair value is recognized as government assistance.