

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements **Six months ended March 31, 2019**

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

March 31 2019 **September 30 2018**

In Canadian dollars

ASSETS

Current assets

Cash	\$	862,909	1,638,177
Accounts receivable (Note 4)		5,037,764	6,992,395
Contract assets		427,928	46,245
Other current assets (Note 5)		1,269,524	953,182
		<u>7,598,125</u>	<u>9,629,999</u>

Deferred tax assets		5,934,265	5,071,270
Goodwill and other intangible assets (Note 6)		3,138,739	3,363,436
Property and equipment (Note 7)		468,695	223,664
Other long-term assets		-	169,816
	\$	<u>17,139,824</u>	<u>18,458,185</u>

LIABILITIES AND EQUITY

Current liabilities

Accounts payable and accruals	\$	2,734,525	2,005,146
Contract liabilities		3,780,420	3,920,458
Current portion of long-term debt (Note 8)		1,577,385	2,295,078
Other current liabilities		351,121	230,295
		<u>8,443,451</u>	<u>8,450,977</u>

Long-term debt (Note 8)		2,418,095	2,646,475
Discounted royalty obligations (Note 9)		3,793,127	3,697,531
Deferred tax liabilities		341,630	377,588
Other long-term liabilities		11,384	23,223
		<u>15,007,687</u>	<u>15,195,794</u>

Equity

Share capital (Note 10)		6,916,378	5,457,889
Contributed surplus		1,305,008	1,645,422
Deficit		(6,089,249)	(3,840,920)
		<u>2,132,137</u>	<u>3,262,391</u>
	\$	<u>17,139,824</u>	<u>18,458,185</u>

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)

Six months ended March 31

In Canadian dollars

	Three Months Ended March 31		Six Months Ended March 31	
	2019	2018	2019	2018
Revenue				
Courseware development services	\$ 1,546,981	2,132,057	\$ 2,713,533	3,761,233
In-service support	2,548,386	1,961,938	4,610,600	3,996,555
Software licensing and subscriptions	779,398	483,540	1,439,341	950,875
Simulation products	148,514	1,547,039	148,514	2,538,114
	5,023,279	6,124,574	8,911,988	11,246,777
Direct costs	2,668,568	3,874,553	4,991,391	7,123,142
Gross profit	2,354,711	2,250,021	3,920,597	4,123,635
Expenses				
Sales and marketing	509,698	405,852	1,073,249	787,558
General and administration	1,831,532	1,169,953	3,088,130	2,315,914
Research and development costs	1,610,399	722,916	2,779,289	1,230,394
Government assistance and other funding (Note 11)	(435,036)	(364,592)	(687,955)	(690,012)
Share-based compensation (Note 10)	845	3,427	1,604	7,177
Finance costs (Note 12)	217,641	314,271	510,832	709,187
Depreciation and amortization	171,093	234,281	341,664	451,280
Other (gains) and losses (Note 13)	(672)	(73,695)	(56,599)	(76,692)
	3,905,500	2,412,413	7,050,214	4,734,806
Profit (loss) before income taxes	(1,550,789)	(162,392)	(3,129,617)	(611,171)
Income tax (recovery) expense				
Current	-	-	-	-
Deferred	(457,482)	(41,535)	(898,953)	(166,633)
	(457,482)	(41,535)	(898,953)	(166,633)
Net profit (loss) and comprehensive income (loss)	\$ (1,093,307)	(120,857)	\$ (2,230,664)	(444,538)
Net profit (loss) per share				
Basic	\$ (0.01)	(0.00)	\$ (0.02)	(0.00)
Diluted	\$ (0.01)	(0.00)	\$ (0.02)	(0.00)
Weighted average number of shares outstanding (Note 10)				
Basic	94,946,368	93,611,164	93,512,714	93,711,350
Diluted	94,946,368	93,611,164	93,512,714	93,711,350

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Six months ended March 31In 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	-	-	7,177	-	-	7,177
Repurchase of shares under normal course issuer bid (Note 10)	(836,000)	(41,800)	-	-	(109,856)	(151,656)
Conversion of debenture	-	-	191,239	(191,239)	-	-
Net profit and comprehensive income	-	-	-	-	(444,538)	(444,538)
March 31, 2018	98,889,776	\$ 5,505,689	\$ 1,640,712	\$ -	\$ (3,440,387)	\$ 3,706,014
Share-based compensation	-	-	4,710	-	-	4,710
Repurchase of shares under normal course issuer bid (Note 10)	(956,000)	(47,800)	-	-	(114,755)	(162,555)
Net profit and comprehensive income	-	-	-	-	(285,778)	(285,778)
September 30, 2018	97,933,776	\$ 5,457,889	\$ 1,645,422	\$ -	\$ (3,840,920)	\$ 3,262,391
Share-based compensation	-	-	1,604	-	-	1,604
Exercise of share options	9,943,517	1,469,464	(342,018)	-	-	1,127,446
Repurchase of shares under normal course issuer bid (Note 10)	(219,500)	(10,975)	-	-	(17,665)	(28,640)
Net profit (loss) and comprehensive income (loss)	-	-	-	-	(2,230,664)	(2,230,664)
March 31, 2019	107,657,793	\$ 6,916,378	\$ 1,305,008	\$ -	\$ (6,089,249)	\$ 2,132,137

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Six months ended March 31**2019****2018**

In Canadian dollars

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

Net profit (loss) for the period	\$	(2,230,664)	(444,538)
Items not affecting cash:			
Share-based compensation		1,604	7,177
Depreciation and amortization		341,664	451,280
Non-cash government assistance		(352,237)	(107,509)
Finance costs		510,832	709,187
Deferred taxes		(898,953)	(166,633)
Unrealized gain on derivative instruments		32,389	90,896
Net foreign exchange differences		(21,901)	(151,822)
Interest received (paid)		9,187	(12,078)
		(2,608,079)	375,960
Changes in non-cash working capital (Note 14)		1,984,319	(1,091,719)
Net change in cash from operating activities		(623,760)	(715,759)

Investing activities

Purchase of property and equipment		(361,998)	(22,802)
Decrease in restricted cash		-	3,000,000
Net change in cash from investing activities		(361,998)	2,977,198

Financing activities

Advances of long-term debt		470,432	385,537
Repayment of obligations under finance leases		(11,051)	(10,320)
Repayment of long-term debt		(1,222,047)	(3,850,588)
Repayment of other financial liabilities		(105,250)	(115,359)
Share options exercised		1,127,446	-
Repurchase of shares under normal course issuer bid		(28,640)	(151,656)
Interest paid		(41,356)	(130,856)
Net change in cash from financing activities		189,534	(3,873,242)

Decrease in cash

		(796,224)	(1,611,803)
Cash and cash equivalents, beginning of period		1,638,177	2,149,369
Net foreign exchange impact on cash		20,956	124,594
Cash, end of period	\$	862,909	662,160

Cash consists of:

Cash on hand and in bank	\$	862,909	1,014,077
Bank indebtedness		-	(351,917)
	\$	862,909	662,160

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2019

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 May 29, 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

Six months ended March 31, 2019In 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

Six months ended March 31, 2019

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

Six months ended March 31, 2019

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 Learninglogics™, a traditional learning management system. 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

	March 31 2019	September 30 2018
Trade	\$ 3,275,770	3,552,948
Government assistance - digital media tax credits	1,210,742	3,053,484
Government assistance - other	408,258	360,112
Other	142,994	25,851
	\$ 5,037,764	6,992,395

Included in trade receivables at March 31, 2019 is an allowance for doubtful accounts for \$233,352 (September 30, 2018 - \$222,536).

5. Other current assets

	March 31 2019	September 30 2018
Work in progress	\$ 682,639	607,019
Prepaid expenses	417,069	313,774
Derivative asset	-	32,389
Share purchase loan	169,816	-
	\$ 1,269,524	953,182

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2019

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)
March 31, 2019	\$ 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	-	80,840	143,857	-	224,697
Disposals	-	(903,061)	-	-	(903,061)
March 31, 2019	\$ 61,815	2,055,434	1,803,000	-	3,920,249
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
March 31, 2019	\$ -	183,608	1,102,000	1,853,131	3,138,739

During the six months ended March 31, 2019, 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)	-	(46,967)
September 30, 2018	\$ 905,550	817,229	-	193,956	1,916,735
Additions	327,984	3,796	-	30,218	361,998
Disposals	-	-	-	-	-
March 31, 2019	\$ 1,233,534	821,025	-	224,174	2,278,733
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)	-	(46,967)
September 30, 2018	\$ 717,208	783,376	-	192,487	1,693,071
Depreciation	108,334	9,247	-	(614)	116,967
Disposals	-	-	-	-	-
March 31, 2019	\$ 825,542	792,623	-	191,873	1,810,038
Carrying values					
October 1, 2017	\$ 243,845	185,308	-	17,202	446,355
September 30, 2018	\$ 188,342	33,853	-	1,469	223,664
March 31, 2019	\$ 407,992	28,402	-	32,301	468,695

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2019In Canadian dollars

8. Long-term debt and operating facilities

		March 31	September 30
	Term	2019	2018
Term loan - 4.09%	(a) 2016-2019	818,675	1,516,251
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	(b) 2016-2019	112,104	179,519
Government of Nova Scotia - 5%	(c) 2013-2021	584,044	669,029
Atlantic Canada Opportunities Agency - non-interest bearing	(d) 2018-2023	2,167,090	2,353,268
Atlantic Canada Opportunities Agency - non-interest bearing	(e) 2015-2019	69,687	111,208
Strategic Innovation Fund - non-interest bearing	(g) 2025-2039	243,880	112,278
		<u>3,995,480</u>	<u>4,941,553</u>
less: current portion		<u>(1,577,385)</u>	<u>(2,295,078)</u>
Total long-term debt		<u>\$ 2,418,095</u>	<u>2,646,475</u>

(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

Six months ended March 31, 2019In 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 March 31, 2019 the Company has drawn \$933,401 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 March 31, 2019 (September 30, 2018 - undrawn).

9. Discounted royalty obligations

	March 31	September 30
	2019	2018
Unsecured royalty obligation	\$ 1,880,306	1,812,427
ACOA-AIF unsecured royalty obligation	2,240,666	2,092,911
	4,120,972	3,905,338
less: current portion (included in other current liabilities)	(327,845)	(207,807)
Total long-term other financial liabilities	\$ 3,793,127	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 March 31, 2019, \$449,709 (September 30, 2018 - 449,709) has been repaid.

Bluedrop Performance Learning Inc.

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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	(219,500)	(10,975)
Shares issued on exercise of share options	9,943,517	1,469,464
Issued and outstanding at March 31, 2019	107,657,793	\$ 6,916,378

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. 1,175,500 common shares had been repurchased under the plan at an average price of \$0.16 per share. The bid expired on March 30, 2019.

During the six month ended March 31, 2019, 219,500 shares were purchased for \$28,640. The purchases resulted in a decrease to share capital and deficit of \$10,975 and \$17,665, respectively. 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 \$1,604 of share-based compensation expense in the six months ended March 31, 2019, relating to the Stock Option Plan (2018 - \$7,177). 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 March 31, 2019 (2018 - 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
Exercised	(9,943,517)	\$0.11
Cancelled	(100,000)	\$0.18
Outstanding at March 31, 2019	-	-
Exercisable at March 31, 2019	-	-

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10. Share capital (continued)

(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 March 31, 2019, 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:

	Three months ended		Six months ended	
	March 31		March 31	
	2019	2018	2019	2018
Common shares issued and outstanding, beginning of year	97,829,276	99,483,776	97,933,776	99,725,776
Weighted average shares purchased through normal course issuer bid	(61,567)	(115,961)	(107,740)	(257,775)
Weighted average shares issued on exercise of share options	2,935,310	-	1,443,329	-
Weighted average shares in treasury stock	(5,756,651)	(5,756,651)	(5,756,651)	(5,756,651)
Weighted average number of shares used in basic and diluted earnings per sha	94,946,368	93,611,164	93,512,714	93,711,350

For the six month ended March 31, 2019, no share options (2018 - 10,043,017) and no shares on convertible notes (2018 - 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

	Three months ended		Six months ended	
	March 31		March 31	
	2019	2018	2019	2018
Government assistance included in income:				
National Research Council	\$ 133,000	209,456	133,000	348,846
Research & Development Corporation	-	42,551	-	82,407
Digital Media Tax Credits	44,896	110,675	100,131	148,745
Discounts on below-market interest rate debt (Note 8)	159,048	-	352,237	107,509
Other government assistance	98,092	1,910	102,587	2,505
	\$ 435,036	364,592	687,955	690,012

12. Finance costs

	Three months ended		Six months ended	
	March 31		March 31	
	2019	2018	2019	2018
Interest on long-term debt	\$ 24,440	36,952	53,182	135,543
Accretion of other financial liabilities	216,359	193,183	426,383	382,110
Accretion of long-term debt	70,698	75,868	144,409	177,181
Short-term interest and bank charges	5,105	5,298	9,266	8,303
Interest on finance lease obligations	724	1,093	1,544	2,275
Revaluation of financial liabilities	(105,499)	-	(105,499)	-
Other finance costs	5,814	1,877	(18,453)	3,775
Total finance costs	\$ 217,641	314,271	510,832	709,187

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2019In Canadian dollars

13. Other (gains) and losses

	Three months ended March 31		Six months ended March 31	
	2019	2018	2019	2018
(Gain) loss on disposal	\$ -	-	(64,841)	-
Bad debt expense (recovery)	-	(16,129)	-	(16,129)
Foreign exchange (gain) loss	(672)	(57,566)	8,242	(60,563)
Total other (gains) and losses	\$ (672)	(73,695)	(56,599)	(76,692)

14. Changes in non-cash working capital

	Six months ended March 31	
	2019	2018
Accounts receivable	\$ 1,959,465	(930,820)
Contract assets	(381,683)	158,448
Other current assets	(348,731)	242,136
Other long-term assets	169,816	-
Accounts payable and accruals	725,490	(213,819)
Contract liabilities	(140,038)	(347,664)
Deferred development funding	-	-
	\$ 1,984,319	(1,091,719)

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:

	Three months ended March 31		Six months ended March 31	
	2019	2018	2019	2018
Salaries and other labour costs	\$ 4,985,905	3,982,950	9,041,047	7,392,877
Materials, services and supplies	610,958	1,627,306	1,192,804	2,922,523
Travel and living	159,942	126,990	305,371	252,714
Occupancy	224,312	201,886	422,313	405,714
Professional fees	528,350	106,073	690,461	222,096
Other costs	110,730	128,069	280,063	261,084
Total expenses classified by nature	\$ 6,620,197	6,173,274	11,932,059	11,457,008

Bluedrop Performance Learning Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2019

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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 March 31, 2019, 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 six months ended March 31, 2019, the Company incurred \$146,160 (2018 - \$146,160) 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		Six months ended	
	March 31		March 31	
	2019	2018	2019	2018
Fees, salaries and benefits to key management personnel	\$ 385,536	\$ 170,525	\$ 568,961	\$ 421,550
Share based compensation to key management personnel	\$ -	\$ 977	\$ -	\$ 2,031

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 six months ended March 31, 2019, the Company recorded a \$8,242 loss on foreign currency (2018 - \$60,563 gain). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the six months ended March 31, 2019, the Company recorded revenue of \$4,238,327 from contracts denominated in US dollars (2018 - \$5,812,385). As at March 31, 2019, the Company held receivables of \$881,525 from contracts denominated in US dollars (September 30, 2018 - \$2,749,315).

Non-hedge designated derivative instruments

At March 31, 2019, the Company had no outstanding foreign exchange contracts.

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Notes to the Condensed Consolidated Interim Financial Statements

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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:

	Six months ended March 31, 2019			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 2,419,892	6,492,096	-	8,911,988
Direct costs	867,888	4,123,503	-	4,991,391
Gross profit	1,552,004	2,368,593	-	3,920,597
Expenses				
Sales and marketing	700,644	369,995	2,610	1,073,249
General and administration	417,222	649,532	2,021,376	3,088,130
Research and development costs	1,721,829	1,057,460	-	2,779,289
Government assistance and other funding	(168,092)	(167,626)	(352,237)	(687,955)
Share-based compensation	780	412	412	1,604
Finance costs	-	-	510,832	510,832
Depreciation and amortization	124,291	211,136	6,237	341,664
Other (gains) and losses	(57,802)	(14,143)	15,346	(56,599)
	2,738,872	2,106,766	2,204,576	7,050,214
(Loss) earnings before income taxes	\$ (1,186,868)	261,827	(2,204,576)	(3,129,617)

	Six months ended March 31, 2018			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,581,924	9,664,853	-	11,246,777
Direct costs	741,793	6,381,349	-	7,123,142
Gross profit	840,131	3,283,504	-	4,123,635
Expenses				
Sales and marketing	529,714	257,844	-	787,558
General and administration	276,196	670,945	1,368,773	2,315,914
Research and development costs	639,713	590,681	-	1,230,394
Government assistance and other funding	(379,755)	(199,742)	(110,515)	(690,012)
Share-based compensation	1,265	2,259	3,653	7,177
Finance costs	-	-	709,187	709,187
Depreciation and amortization	200,505	243,138	7,637	451,280
Other (gains) and losses	(34,507)	(14,727)	(27,458)	(76,692)
	1,233,131	1,550,398	1,951,277	4,734,806
(Loss) earnings before income taxes	\$ (393,000)	1,733,106	(1,951,277)	(611,171)

Bluedrop Performance Learning Inc.

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18. Segment reporting (continued)

	Three months ended March 31, 2019			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,383,634	3,639,645	-	5,023,279
Direct costs	465,311	2,203,257	-	2,668,568
Gross profit	918,323	1,436,388	-	2,354,711
Expenses				
Sales and marketing	317,661	189,427	2,610	509,698
General and administration	223,691	326,930	1,280,911	1,831,532
Research and development costs	1,010,912	599,487	-	1,610,399
Government assistance and other funding	(168,092)	(107,896)	(159,048)	(435,036)
Share-based compensation	567	139	139	845
Finance costs	-	-	217,641	217,641
Depreciation and amortization	54,579	113,637	2,877	171,093
Other (gains) and losses	7,338	41,077	(49,087)	(672)
	1,446,656	1,162,801	1,296,043	3,905,500
(Loss) earnings before income taxes	\$ (528,333)	273,587	(1,296,043)	(1,550,789)

	Three months ended March 31, 2018			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 975,102	5,149,472	-	6,124,574
Direct costs	443,129	3,431,424	-	3,874,553
Gross profit	531,973	1,718,048	-	2,250,021
Expenses				
Sales and marketing	276,541	129,311	-	405,852
General and administration	144,930	264,725	760,298	1,169,953
Research and development costs	336,156	386,760	-	722,916
Government assistance and other funding	(208,917)	(152,669)	(3,006)	(364,592)
Share-based compensation	602	1,056	1,769	3,427
Finance costs	-	-	314,271	314,271
Depreciation and amortization	109,050	121,434	3,798	234,281
Other (gains) and losses	(12,943)	(23,248)	(37,504)	(73,695)
	645,419	727,369	1,039,626	2,412,413
(Loss) earnings before income taxes	\$ (113,446)	990,679	(1,039,626)	(162,392)

19. Subsequent events

Subsequent to the statement of financial position date, the Company made an additional draw against the \$7.6 million repayable investment under the Strategic Innovation Fund Program (Note 8). Proceeds of this draw was \$326,321 and the difference between proceeds received and fair value is recognized as government assistance.