

Bluedrop Performance Learning Inc.

Consolidated Financial Statements

Year ended September 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Bluedrop Performance Learning Inc.

Opinion

We have audited the consolidated financial statements of Bluedrop Performance Learning Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at September 30, 2019 and September 30, 2018
- the consolidated statements of comprehensive Income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at end of September 30, 2019 and September 30, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.



Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Jennifer Clement.

St. John's, Canada

January 28, 2020

Bluedrop Performance Learning Inc.

Consolidated Statements of Financial Position

September 30 2019 **September 30 2018**

In Canadian dollars

ASSETS

Current assets

Cash	\$	150,488	1,638,177
Accounts receivable (Note 5)		7,905,225	6,992,395
Contract assets (Note 6)		1,688,607	46,245
Work in progress		33,989	607,019
Other current assets (Note 7)		434,885	346,163

10,213,194 9,629,999

Work in progress		607,019	-
Deferred tax assets (Note 8)		2,808,350	5,071,270
Goodwill and other intangible assets (Note 9)		2,938,908	3,363,436
Property and equipment (Note 10)		904,742	223,664
Other long-term assets		98,438	169,816

\$ 17,570,651 18,458,185
LIABILITIES AND EQUITY

Current liabilities

Bank indebtedness (Note 11)	\$	970,174	-
Accounts payable and accruals		3,937,378	2,005,146
Contract liabilities (Note 6)		4,994,893	3,649,516
Current portion of long-term debt (Note 11)		666,703	2,295,078
Other current liabilities		393,207	230,295

10,962,355 8,180,035

Long-term debt (Note 11)		2,311,843	2,646,475
Discounted royalty obligations (Note 12)		3,851,295	3,697,531
Long-term contract liabilities (Note 6)		130,583	270,942
Deferred tax liabilities (Note 8)		305,672	377,588
Other long-term liabilities		5,213	23,223

17,566,961 15,195,794

Equity

Share capital (Note 13)		6,916,378	5,457,889
Contributed surplus		1,305,008	1,645,422
Deficit		(8,217,696)	(3,840,920)

3,690 3,262,391

\$ 17,570,651 18,458,185

Approved on Behalf of the Board

Subsequent events (Note 25)


Derrick H. Rowe
Director

Emad Rizkalla
Director

Bluedrop Performance Learning Inc.

Consolidated Statements of Comprehensive Income (Loss)

Year ended September 30In Canadian dollars

	2019	2018
Revenue		
Courseware development services	\$ 5,957,991	6,167,645
In-service support	10,743,541	9,181,660
Software licensing and subscriptions	3,522,604	2,089,173
Simulation products	2,793,347	2,595,038
	23,017,483	20,033,516
Direct costs	12,182,749	11,815,185
Gross profit	10,834,734	8,218,331
Expenses		
Sales and marketing	2,349,858	1,788,387
General and administration	5,957,740	4,400,744
Research and development costs	5,473,342	2,970,261
Government assistance and other funding (Note 14)	(2,539,721)	(2,072,081)
Finance costs, net (Note 15)	992,212	1,258,562
Depreciation and amortization (Note 9 and 10)	717,911	802,869
Other (gains) and losses (Note 16)	51,499	(158,529)
	13,002,841	8,990,213
Loss before income taxes	(2,168,107)	(771,882)
Income tax expense (recovery)		
Deferred (Note 8)	2,191,004	(41,566)
	2,191,004	(41,566)
Net loss and comprehensive loss	\$ (4,359,111)	(730,316)
Net loss per share		
Basic	\$ (0.04)	(0.01)
Diluted	\$ (0.04)	(0.01)
Weighted average number of shares outstanding (Note 13)		
Basic	97,729,973	93,125,827
Diluted	97,729,973	93,125,827

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Year ended September 30

In Canadian dollars

	Ordinary Common Shares	Share Capital	Contributed surplus	Equity component of convertible debentures	Deficit	Total
October 1, 2017	99,725,776	\$ 5,547,489	\$ 1,442,296	\$ 191,239	\$ (2,885,993)	\$ 4,295,031
Share-based compensation	-	-	11,887	-	-	11,887
Repurchase of shares under normal course issuer bid (Note 13)	(1,792,000)	(89,600)	-	-	(224,611)	(314,211)
Conversion of debenture	-	-	191,239	(191,239)	-	-
Net loss and comprehensive loss	-	-	-	-	(730,316)	(730,316)
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 13)	(219,500)	(10,975)	-	-	(17,665)	(28,640)
Net loss and comprehensive loss	-	-	-	-	(4,359,111)	(4,359,111)
September 30, 2019	107,657,793	\$ 6,916,378	\$ 1,305,008	\$ -	\$ (8,217,696)	\$ 3,690

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Year ended September 30

2019

2018

In Canadian dollars

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

Net loss for the period	\$	(4,359,111)	(730,316)
Items not affecting cash:			
Share-based compensation		1,604	11,887
Depreciation and amortization		717,911	802,869
Non-cash government assistance		(822,374)	(458,200)
Finance costs		1,294,632	1,370,087
Finance income		(302,419)	(111,525)
Deferred taxes		2,191,004	(41,566)
Unrealized loss on derivative instruments		66,114	97,519
Net foreign exchange differences		(5,038)	(139,357)
Interest paid		(18,122)	(38,033)
		(1,235,800)	763,365
Changes in non-cash working capital (Note 17)		503,990	474,649
Net change in cash from operating activities		(731,810)	1,238,014

Investing activities

Purchase of property and equipment		(974,461)	(86,009)
Decrease in restricted cash		-	3,000,000
Net change in cash from investing activities		(974,461)	2,913,991

Financing activities

Advances of long-term debt		1,115,503	848,506
Repayment of obligations under finance leases		(22,488)	(20,999)
Repayment of long-term debt		(2,565,193)	(4,805,234)
Repayment of discounted royalty obligations		(311,996)	(302,976)
Share options exercised		1,127,446	-
Repurchase of shares under normal course issuer bid		(28,640)	(314,211)
Interest paid		(65,607)	(189,090)
Net change in cash from financing activities		(750,975)	(4,784,004)

Decrease in cash		(2,457,246)	(631,999)
Cash, beginning of period		1,638,177	2,149,369
Net foreign exchange impact on cash		(617)	120,807
Cash, end of period	\$	(819,686)	1,638,177

Cash consists of:

Cash on hand and in bank	\$	150,488	1,638,177
Bank indebtedness		(970,174)	-
	\$	(819,686)	1,638,177

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 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. On March 27, 2019, the Company was discontinued under the Corporations act of Newfoundland and Labrador and continued under the Canada Business Corporations Act. These consolidated 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 consolidated financial statements were approved and authorized for issuance by the Board of Directors on January 28, 2020.

2. Basis of presentation

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

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

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

3. Significant accounting policies

(a) Cash

Cash includes cash on hand and balances with banks. Bank indebtedness is considered to be operating activities.

(b) Work in progress

Work in progress is valued at the lower of cost and net realisable value and includes direct labour and materials relating to ongoing internal projects expected to be sold in the normal course of business.

(c) Intangible assets and goodwill

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

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

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

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019In Canadian dollars

3. Significant accounting policies (continued)

(c) Intangible assets and goodwill (continued)

Goodwill

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

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

(d) Foreign currencies

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

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

(e) Property and equipment

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

Computer equipment and software	3 - 5 years
Furniture Fixtures and equipment	3 - 7 years
Vehicles	5 years

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

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

(f) Leases

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

(g) Provisions

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

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

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

(h) Revenue recognition

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, if the stand-alone selling price cannot be determined. Any discounts are allocated proportionately to all performance obligations in the contract. 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 revenue is recognized using a time and materials basis, and is measured monthly based on input measures, such as hours incurred to date with consideration given to output measures, such as contract milestones when applicable. Payment is generally due within 30 days from delivery or agreed upon milestone invoicing dates.

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. Payment is generally due within 30 days from the monthly invoicing. 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. Payment is generally due within 30 days from the agreed upon milestone invoicing dates.

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. Payment is generally due 30 days from the commencement of the licensing and subscriptions period and renewed on an annual basis.

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. Payment is generally due 30 days from the agreed upon milestone invoicing dates.

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

3. Significant accounting policies (continued)

(h) Revenue recognition (continued)

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration from the customer. Contract liabilities are recognized as revenue when the Company performs under the contract.

Cost to obtain a contract

IFRS 15 requires incremental costs of obtaining a contract and certain costs to fulfil a contract to be recognized as an asset if certain criteria are met. Capitalized contract costs are amortized on a systematic basis that is consistent with the transfer of related goods or services to the customer. Capitalized costs are subject to an impairment assessment at the end of each reporting period.

(i) Development costs

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

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

(j) Government assistance

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

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

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

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

3. Significant accounting policies (continued)

(k) Share-based compensation

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

(l) Income taxes

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

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

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

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

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

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

(m) Financial instruments

The Company classifies all financial instruments as either amortized cost, fair value through other comprehensive income (OCI), other financial liabilities, or fair value through profit and loss. All financial instruments are initially measured at fair value. Financial instruments that are classified as fair value through profit and loss are carried at fair value at each reporting date and any change in fair value is recorded in earnings. All other financial instruments are subsequently measured at amortized cost using the effective interest method.

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

3. Significant accounting policies (continued)

(m) Financial instruments (continued)

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

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

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

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

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

Financial assets and financial liabilities are offset and the net amount is reporting in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(n) Business combinations

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

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

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

(o) Earnings per share

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

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

3. Significant accounting policies (continued)

(p) Impairment of non-financial assets

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

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

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

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

(q) Impairment of financial assets

The Company adopted IFRS 9, *Financial Instruments* with an initial application date of October 1, 2018 (see Note 4). The Company recognizes an allowance for expected credit losses (ECL) for all debt instruments not held at fair value through profit or loss. For accounts receivable and contract assets, the Company applies a simplified approach in calculating ECLs by recognizing a loss allowance based on lifetime ECLs at each reporting period. The Company has established a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(r) Significant management judgement and estimation uncertainty

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

Significant management judgements

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

i) Revenue recognition

Revenue from courseware development services and simulation products contracts is 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. Judgement is used in determining the estimates of costs to complete. The Company employs sophisticated project management tools to assist with the initial forecasting, management of projects and the recognition of revenue over time using the input cost method. Management regularly reviews the systems, processes, and calculations relating to percentage completion on significant contracts, making adjustments as required.

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

3. Significant accounting policies (continued)

The Company often enters into contracts with customers involving multiple performance obligations, which may include a combination of courseware development services, in-service support, software licensing and subscriptions, manufacturing of simulation products, as well as the provision of training services, spare parts and maintenance. When a single sales transaction requires the delivery of more than one product or service (multiple performance obligations), the revenue recognition criteria are applied to the separately identifiable performance obligations. A component is considered separately identifiable if they are capable of being distinct, i.e., if the delivered item has value to the customer on a stand-alone basis.

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, if the stand-alone selling price cannot be determined.

ii) Income taxes

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

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

iii) Government assistance

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

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

v) Classification of financial arrangements

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

vi) Deferred development funding

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

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

3. Significant accounting policies (continued)

Estimation uncertainty

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

i) Fair value of financial liabilities

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

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

ii) Impairment of non-financial assets

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

iii) Revenue recognition

Revenue from courseware development services and simulation products is recognized over time using the cost input method, measured by the costs incurred to date to the estimated total costs for each contract. Changes to the estimated costs to complete could have a material impact on the carrying values of unbilled revenue or deferred revenue and a material impact on future revenue.

The Company often enters into contracts with customers involving the supply of multiple products and services. The total contract price is allocated to each separate identifiable performance obligation on the basis of its stand-alone selling price based on estimated total cost for each performance obligation. Changes to the estimated costs could have a material impact on the carrying values of unbilled revenue or deferred revenue and a material impact on future revenue.

iv) Share-based compensation

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

v) Work in progress

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

vi) Income tax expense

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

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

3. Significant accounting policies (continued)

vii) Impairment of financial assets

In assessing impairment, management estimates the recoverable amount of financial assets based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Changes in these assumptions could have a material impact on the carrying value of financial assets and bad debt expense.

4. New and future accounting standards

The Company transitioned to the following new standards and amendments that were effective for annual periods beginning on January 1, 2018 and that the Company has adopted on October 1, 2018.

(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.

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
Accounts receivable	Loans and receivables	Amortized cost
Derivative asset/ liability	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 IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

BlueDROP Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

4. New and future accounting standards (continued)

(a) IFRS 9 Financial Instruments (continued)

For trade receivables and contract assets, the Company has applied the simplified approach under IFRS 9 and has calculated ECLs based on lifetime expected credit losses taking into consideration 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.

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 has 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 not 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, the Company 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 the consolidated 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 and cash flows are affected by economic conditions.

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

4. New and future accounting standards (continued)

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

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 disclosed in note 3(g).

(c) IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosures of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees, leases of 'low-value' assets and short-term leases (i.e. term of 12 months or less). At the commencement of a lease, a lessee will recognize a lease liability and a right of use asset representing the right to use the underlying asset during the lease term. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if entities have also applied IFRS 15, Revenue from Contracts with Customers.

The Company has substantially completed the assessment of IFRS 16 and the impact the new standard will have on the consolidated financial statements, which will result in a new lease liability and right of use asset being recognized on the consolidated statement of financial position. In addition, the nature and timing of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expense with depreciation expense for right-of-use assets and an interest expense of the lease liabilities. The standard permits two methods of adoption: retrospective to each reporting period presented (full retrospective), or retrospective with the cumulative effect of initially applying the guidance recognized at the date of initial application (modified retrospective). The Company intends to adopt the standard on October 1, 2019 using the modified retrospective method with certain practical expedients that are available under this method.

The Company has reached conclusions on key accounting policies upon transition to IFRS 16 and intends to apply the following practical expedients upon transitions:

- The previous determination pursuant to IAS 17 and IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, or whether a contract is a lease has been maintained for existing contracts;
- initial direct costs will not be taken into account in the initial measurement of the right-of-use asset as at October 1, 2019.

During 2019, the Company has performed a detailed impact assessment of IFRS 16. In summary, the impact of IFRS 16 adoption is expected to be a recognition of a \$2,513,400 lease liability and right-of-use asset. The adoption of IFRS 16 is not expected to have a material impact on the Consolidated Statement of Comprehensive Income.

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

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

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

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

4. New and future accounting standards (continued)

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

The Company intends to adopt these amendments on October 1, 2019. The amendments are not expected to have any impact on its financial statements.

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

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

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

The Company intends to adopt these amendments on October 1, 2019. The amendments are not expected to have any impact on its financial statements.

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

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

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

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

(g) Amendments to IAS 1 and IAS 8: *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to include decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments to the definition of material is not expected to have a significant impact on the Company's consolidated financial statements.

5. Accounts receivable

	September 30 2019	September 30 2018
Trade	\$ 5,649,977	3,552,948
Government assistance - digital media tax credits	1,784,861	3,053,484
Government assistance - other	303,160	360,112
Other	167,227	25,851
	<u>\$ 7,905,225</u>	<u>6,992,395</u>

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019In Canadian dollars

5. Accounts receivable (continued)

Set out below is the movement in the allowance for expected credit losses of trade receivables. Changes in provision have been recognized in other gains and losses on the statement of comprehensive income (loss).

	2019	2018
As at October 1	\$ 222,536	325,884
Provision for expected credit losses	27,641	-
Write-off (reversal)	-	(114,725)
Foreign exchange movement	8,306	11,377
	\$ 258,483	222,536

6. Contract balances

(a) Contract balances

	2019	2018
Trade receivables (Note 5)	\$ 5,649,977	3,552,948
Contract assets	1,688,607	46,245
Contract liabilities	5,125,476	3,920,458

Contract assets relate to revenue earned from ongoing courseware development services, in-service support and simulation products. As such, the balances of this account vary and depend on the number of ongoing contracts at the end of the year.

Contract liabilities include advances received towards ongoing courseware development services, in-service support, software licensing and subscriptions and simulation products. The increase in contract liabilities in 2019 was mainly due to the \$4,823,510 advances received from customers. During the year ended September 30, 2019, the Company recognized revenue from amounts included in contract liabilities at the beginning of the year of \$3,618,492 as performance obligations were satisfied (2018 - \$3,046,989).

(b) Performance obligations

The following table includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as at September 30, 2019:

	1 year	> 1 year
Courseware development services	\$ 3,430,537	2,021,942
In-service support	5,177,164	12,799,673
Software licensing and subscriptions	3,766,035	5,739,197
Simulation products	1,151,419	-
	\$ 13,525,155	20,560,811

The remaining performance obligations expected to be recognized in more than one year relate primarily to the delivery of software licensing and subscriptions and in-service support. All the other remaining performance obligations are expected to be recognized within one year.

7. Other current assets

	September 30 2019	September 30 2018
Prepaid expenses	\$ 236,944	313,774
Cost of obtaining a contract	28,125	-
Derivative asset	-	32,389
Share purchase loan (note 19)	169,816	-
	\$ 434,885	346,163

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

8. Income taxes

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

	2019	2018
Earnings before income tax	\$ (2,168,107)	(771,882)
Statutory tax rate	30.0%	30.0%
Expected tax expense	(650,432)	(231,565)
Non-deductible share based compensation	485	3,598
Other non-deductible expenses	26,917	33,352
Effect of difference in statutory tax rates of subsidiaries	4,785	5,358
Revaluation of deferred tax assets	2,809,249	147,691
	\$ 2,191,004	(41,566)
Deferred tax expense		
Origination and reversal of temporary differences	(606,628)	(190,469)
Change in recognized deductible temporary differences	2,797,632	148,903
	\$ 2,191,004	(41,566)

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

	September 30 2019	September 30 2018
Intangible assets	\$ (458,016)	(1,040,722)
Property and equipment	740,499	862,023
Long-term debt	(486,786)	(323,426)
Other financial liabilities	505,163	543,728
Contract liabilities	181,747	252,039
Non-capital losses	2,020,071	4,400,040
	\$ 2,502,678	4,693,682
Deferred tax assets	2,808,350	5,071,270
Deferred tax liabilities	(305,672)	(377,588)
	\$ 2,502,678	4,693,682

Deferred tax liabilities of \$5,336,235 (2018 - \$5,302,787) associated with investments in subsidiaries have not been recognized, as the Company controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

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

	September 30 2019	September 30 2018
Deductible temporary differences	\$ 2,559,905	1,083,864
Non-capital losses	3,135,396	1,748,943

Non-capital losses are not scheduled to expire within the next five years.

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

9. 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)
September 30, 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	-	164,671	259,857	-	424,528
Disposals	-	(903,061)	-	-	(903,061)
September 30, 2019	\$ 61,815	2,139,265	1,919,000	-	4,120,080
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
September 30, 2019	\$ -	99,777	986,000	1,853,131	2,938,908

No development expenditures, or related government assistance, have been capitalized in intangible assets during the year. Technology assets above include the *Bluedrop360™* platform and have a remaining useful life of two years. The Company also has a customer list included in Customer Relationships above that has a net book value of \$986,000 and a remaining useful life of four years and four months.

During the year ended September 30, 2019, the Company disposed of the *Campus* learning management system technology. The technology was fully depreciated with no remaining carrying value.

(a) Impairment test - Goodwill

For the purpose of annual impairment testing goodwill is allocated to the operating segments expected to benefit from the synergies of the business combinations in which the goodwill arose. At September 30, 2019, \$1,415,007 of goodwill has been allocated to the Bluedrop Learning Networks operating segment and \$438,124 has been allocated to the Bluedrop Training and Simulation operating segment.

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

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

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

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10. 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	611,706	54,121	-	308,634	974,461
September 30, 2019	\$ 1,517,256	871,350	-	502,590	2,891,196
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	237,918	17,805	-	37,660	293,383
September 30, 2019	\$ 955,126	801,181	-	230,147	1,986,454
Carrying values					
October 1, 2017	\$ 243,845	185,308	-	17,202	446,355
September 30, 2018	\$ 188,342	33,853	-	1,469	223,664
September 30, 2019	\$ 562,130	70,169	-	272,443	904,742

11. Long-term debt and operating facilities

	Term	September 30 2019	September 30 2018
Term loan - 4.09%	(a) 2016-2019	-	1,516,251
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	(b) 2016-2020	41,249	179,519
Government of Nova Scotia - 5%	(c) 2013-2022	497,260	669,029
Atlantic Canada Opportunities Agency - non-interest bearing	(d) 2018-2023	1,971,408	2,353,268
Atlantic Canada Opportunities Agency - non-interest bearing	(e) 2015-2019	24,287	111,208
Strategic Innovation Fund - non-interest bearing	(f) 2025-2039	444,342	112,278
		2,978,546	4,941,553
less: current portion		(666,703)	(2,295,078)
Total long-term debt		\$ 2,311,843	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. Monthly blended payments on the loan were \$30,000 per month in the first twelve months and \$120,357 per month during the following twenty-four months. The loan was secured by the general security agreement over other assets of the Company. The loan was repaid in full as at September 30, 2019.

(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.

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019In Canadian dollars

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

(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.

(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 September 30, 2019 the Company has drawn \$1,115,503 of the funds. The loan has been recorded using the effective interest method and the difference between the proceeds received and fair value is recognized as government assistance (Note 14).

(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. As at September 30, 2019, the Company has drawn \$45,000 of the line of credit (September 30, 2018 - undrawn).

12. Discounted royalty obligations

	September 30	September 30
	2019	2018
Unsecured royalty obligation	\$ 1,683,877	1,812,427
ACOA-AIF unsecured royalty obligation	2,508,890	2,092,911
	<u>4,192,767</u>	<u>3,905,338</u>
less: current portion (included in other current liabilities)	(341,472)	(207,807)
Total long-term other financial liabilities	\$ <u>3,851,295</u>	<u>3,697,531</u>

(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. During the year, management revalued the unsecured royalty obligation due to a change in forecasted future cash flows and as a result recognized a gain of \$449,151 (2018 - \$163,575) (Note 15).

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019

In Canadian dollars

12. Discounted royalty obligations (continued)

(b) ACOA-AIF unsecured Royalty obligation

The Company has recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,984,419 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and product related services resulting from the research funded. As of September 30, 2019, \$531,477 (September 30, 2018 - \$449,709) has been repaid. During the year, management revalued the ACOA-AIF unsecured royalty obligation due to a change in forecasted future cash flows and as a result recognized an expense of \$202,236 (2018 - \$67,101) (Note 15).

13. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

	Number of Shares	Share capital
Issued and outstanding at October 1, 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 September 30, 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 19). As collateral for the non-interest bearing share purchase loans, the borrower has granted the Company a security interest in a portion of the shares purchased.

On March 31, 2017, the Company received approval from the TSX Venture Exchange for a 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 year ended September 30, 2019, 219,500 shares were purchased under the above normal course issuer bid 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. As at September 30, 2019, 6,779,201 common shares were available for grant under the stock option plan. 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.

Bluedrop Performance Learning Inc.

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13. Share capital (continued)

The Company recorded \$1,604 of share-based compensation expense during the year ending September 30, 2019, relating to the Stock Option Plan (2018 - \$11,887) recognized in other (gains) and losses on the statement of comprehensive income. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model. No stock options were granted during the year ending September 30, 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 September 30, 2019	-	-
Exercisable at September 30, 2019	-	-

(d) Employee share purchase plan

The Company has an employee share purchase plan which permits employees to subscribe to common shares of the Company through payroll deductions. The Company may provide financial assistance with respect to the plan by way of loan, guarantee or otherwise. The Company has reserved a maximum of 2,969,597 common shares under the employee share purchase plan. As at September 30, 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:

	2019	2018
Common shares issued and outstanding, beginning of year	97,933,776	99,725,776
Weighted average shares purchased through normal course issuer bid	(163,927)	(843,298)
Weighted average shares issued on exercise of share options	5,716,775	-
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	97,729,973	93,125,827

For the year ending September 30, 2018, 10,043,017 share options and 20,000,000 shares on convertible debentures were excluded from the calculation of diluted weighted average number of shares calculation as their effect would be anti-dilutive. No share options or convertible debentures were outstanding as at September 30, 2019.

14. Government assistance and other funding

	2019	2018
Government assistance included in income:	\$	
National Research Council	524,721	723,419
Research & Development Corporation	204,816	136,810
Digital Media Tax Credits	1,135,483	543,314
Scientific Research & Experimental Development Tax Credits	(93,966)	206,262
Discounts on below-market interest rate debt (Note 11)	747,940	458,200
Other government assistance	20,727	4,076
	\$ 2,539,721	2,072,081

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15. Finance costs

	2019	2018
Interest on long-term debt	\$ 94,121	197,287
Accretion of other financial liabilities	846,339	789,221
Accretion of long-term debt	277,842	326,485
Short-term interest and bank charges	32,054	21,346
Interest on finance lease obligations	2,702	4,192
Other finance costs	41,574	31,556
Total finance cost	1,294,632	1,370,087
Revaluation of financial liabilities (Note 12)	(246,915)	(96,656)
Other interest income	(55,504)	(14,869)
Total finance income	(302,419)	(111,525)
Total finance costs, net	\$ 992,212	1,258,562

16. Other (gains) and losses

	2019	2018
Gain on disposal	\$ (83,582)	-
Bad debt expense (recovery)	27,608	(110,676)
Share-based compensation (Note 13)	1,604	11,887
Foreign exchange (gain) loss	105,869	(59,740)
Total other (gains) and losses	\$ 51,499	(158,529)

17. Changes in non-cash working capital

	2019	2018
Accounts receivable	\$ (908,131)	(201,685)
Contract assets	(1,642,362)	626,350
Work in progress	573,030	329,262
Other current assets	(121,111)	(9,166)
Long-term work in progress	(607,019)	-
Other long-term assets	71,378	-
Accounts payable and accruals	1,933,187	(817,101)
Contract liabilities	1,205,018	546,989
	\$ 503,990	474,649

18. Expenses classified by nature

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

	2019	2018
Salaries and other labour costs	\$ 18,062,829	14,249,197
Materials, services and supplies	4,632,324	4,385,798
Travel and living	593,166	546,664
Occupancy	861,526	810,032
Professional fees	1,417,013	464,066
Other costs	396,831	518,820
Total expenses classified by nature	\$ 25,963,689	20,974,577

Bluedrop Performance Learning Inc.

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Year ended September 30, 2019

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19. Related party transactions

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

(a) Share purchase loans

The Company has provided share purchase loans to a director of the Company. As collateral for the non-interest bearing share purchase loans, the borrower has granted the Company a security interest in a portion of the shares purchased. The loans are repayable in full on or before December 31, 2019 (see subsequent event Note 25). As at September 30, 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 year ended September 30, 2019, the Company incurred \$292,320 (2018 - \$292,320) 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.

	<u>2019</u>	<u>2018</u>
Fees, salaries and benefits to key management personnel	\$ 833,350	762,600
Share based compensation to key management personnel	\$ -	3,575

20. Financial instruments

Fair value measurement

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

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

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Notes to the Consolidated Financial Statements

Year ended September 30, 2019In Canadian dollars

20. Financial instruments (continued)

The following table sets out the approximate fair values of financial instruments on the statement of financial position as at September 30, 2019, which are all recorded at amortized cost following initial recognition, except for derivatives which are recognized at fair value through profit or loss:

	Fair value hierarchy	September 30, 2019		September 30, 2018	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	1	\$ 150,488	\$ 150,488	\$ 1,638,177	\$ 1,638,177
Accounts receivable	2	\$ 7,905,225	\$ 7,905,225	\$ 6,992,395	\$ 6,992,395
Derivative asset	2	\$ -	\$ -	\$ 32,389	\$ 32,389
Accounts payable and accruals	2	\$ 3,937,378	\$ 3,937,378	\$ 2,005,146	\$ 2,005,146
Long-term debt (including current portion)	2 & 3	\$ 2,978,546	\$ 2,902,211	\$ 4,941,553	\$ 4,973,082
Derivative liability	2	\$ 33,725	\$ 33,725	\$ -	\$ -
Royalty obligations (including current portion)	2 & 3	\$ 4,192,767	\$ 4,371,505	\$ 3,905,338	\$ 3,935,841

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

The fair values of the long-term debt and other financial liabilities are estimated using a discounted cash flow valuation technique. The fair value measurement uses level 3 inputs based on estimates of future cash flows associated with the liabilities and discount rates that reflect market assessments of the performance risk which includes the credit risk of Company at September 30, 2019. Derivative assets and liabilities are recorded at fair value using prevailing foreign exchange market rates and interest rates at the reporting date.

Financial instrument risk

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

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

(a) Interest rate risk

The Company's obligations under finance leases are at fixed interest rates. A significant portion of long-term debt is at interest rates which are fixed or are non-interest bearing. As at September 30, 2019, the Company was in compliance with contract terms associated with long-term debt arrangements. As such, the Company's exposure to fluctuations in interest rates is not considered material.

(b) Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on transactions incurred in US dollars. During the year ended September 30, 2019, the Company recorded a \$105,869 loss on foreign currency (2018 - \$59,740 gain). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the year ended September 30, 2019, the Company recorded revenue of \$10,328,423 from contracts denominated in US dollars (2018 - \$9,921,934). A 5% change in the US dollar exchange rate would result in a \$683,757 impact on revenue recognized (2018 - \$496,097).

As at September 30, 2019, the Company held receivables of \$3,528,659 from contracts denominated in US dollars (September 30, 2018 - \$2,749,315). A 5% change in the US dollar exchange rate would result in a \$233,603 (2018 - \$137,466) impact on foreign exchange gains or losses.

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20. Financial instruments (continued)

Non-hedge designated derivative instruments

At September 30, 2019, the Company held 3 outstanding foreign exchange contracts with various maturities to December 2019 to sell US\$1,500,000 into Canadian dollars at rates averaging CA\$1.32 to yield \$1,951,200. As at September 30, 2019, the Company recorded a derivative liability of \$33,725 included in other current liabilities representing the fair value of these outstanding contracts.

(c) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. The Company's maximum exposure to credit risk corresponds to the carrying value of accounts receivable and unbilled work in progress. Two customers accounted for 42% of revenue (2018 – three customers - 68%) and two customers accounted for 62% of the Company's trade receivables at September 30, 2019 (2018 – two customers - 81%).

An allowance for doubtful accounts is established based a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The allowance for doubtful accounts at September 30, 2019, was \$258,483 (2018 - \$222,536). At September 30, 2019, the Company's trade accounts receivable included amounts over 90 days old totaling \$921,404 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (2018 - \$1,078,192).

(d) Liquidity risk

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

	1 year	1-5 years	>5 years
Accounts payable and accruals	\$ 3,937,378	-	-
Obligations under finance leases	19,160	5,358	-
Long-term debt	887,924	2,267,857	1,704,824
	<u>\$ 4,844,462</u>	<u>2,273,215</u>	<u>1,704,824</u>

In addition to the above, the Company has royalty obligations discussed in note 12. Bluedrop is required 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 of all amounts owing upon payment of \$2,000,000. The Company must also repay annual instalments of 5% of the gross revenue generated from products and product related services resulting from the research funding by ACOA-AIF.

21. Capital management

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

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

The Company believes that current cash balances and future funds generated through its operations will be sufficient to meet cash requirements currently and for the foreseeable future. If the Company were to experience a significant reduction in its cash flows from operations, it currently has a variety of options for raising capital for short-term cash needs, including additional capacity on the demand operating line of credit facility (Note 11). There were no changes in the Company's approach to capital management during the year ended September 30, 2019. The Company is not subject to any externally imposed capital requirements.

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22. Leases

Certain intangibles assets and property and equipment are held under finance lease arrangements. In addition, the Company has entered into operating lease arrangements for office occupancy and equipment. Operating lease expense for the year ended September 30, 2019 was \$856,134 (2018 - \$800,172). Future minimum lease payments (including interest) at September 30, 2019 are as follows:

		1 year	1-5 years	>5 years
Obligations under finance lease	\$	19,160	5,358	-
Operating leases	\$	877,106	2,419,587	-

23. Segment reporting

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

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

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

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

	2019			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue				
Courseware development services	\$ 2,018,373	3,939,618	-	5,957,991
In-service support	-	10,743,541	-	10,743,541
Software licensing and subscriptions	3,211,678	310,926	-	3,522,604
Simulation products	-	2,793,347	-	2,793,347
	5,230,051	17,787,432	-	23,017,483
Direct costs	1,876,604	10,306,145	-	12,182,749
Gross profit	3,353,447	7,481,287	-	10,834,734
Expenses				
Sales and marketing	1,372,905	973,343	3,610	2,349,858
General and administration	846,224	1,338,030	3,773,486	5,957,740
Research and development costs	3,078,470	2,394,872	-	5,473,342
Government assistance and other funding	(1,221,849)	(569,932)	(747,940)	(2,539,721)
Finance costs	-	-	992,212	992,212
Depreciation and amortization	218,301	490,153	9,457	717,911
Other (gains) and losses	(30,553)	(3,407)	85,459	51,499
	4,263,498	4,623,059	4,116,284	13,002,841
(Loss) earnings before income taxes	\$ (910,051)	2,858,228	(4,116,284)	(2,168,107)
Total assets	\$ 3,170,396	13,399,501	1,000,754	17,570,651
Total liabilities	\$ 5,421,179	3,117,282	9,028,500	17,566,961

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24. Segment reporting (continued)

	2018			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue				
Courseware development services	\$ 1,877,039	4,290,606	-	6,167,645
In-service support	-	9,181,660	-	9,181,660
Software licensing and subscriptions	1,803,571	285,602	-	2,089,173
Simulation products	-	2,595,038	-	2,595,038
	3,680,610	16,352,906	-	20,033,516
Direct costs	1,502,548	10,312,637	-	11,815,185
Gross profit	2,178,062	6,040,269	-	8,218,331
Expenses				
Sales and marketing	1,173,113	615,274	-	1,788,387
General and administration	623,469	1,268,214	2,509,061	4,400,744
Research and development costs	1,436,654	1,533,607	-	2,970,261
Government assistance and other funding	(803,962)	(809,919)	(458,200)	(2,072,081)
Finance costs	-	-	1,258,562	1,258,562
Depreciation and amortization	300,597	486,902	15,370	802,869
Other (gains) and losses	(136,771)	(26,815)	5,057	(158,529)
	2,593,100	3,067,263	3,329,850	8,990,213
(Loss) earnings before income taxes	\$ (415,038)	2,973,006	(3,329,850)	(771,882)
Total assets	\$ 5,578,134	11,306,136	1,573,915	18,458,185
Total liabilities	\$ 3,735,291	1,917,871	9,542,632	15,195,794

Revenue by geographic location

	2019	2018
Canada	\$ 20,938,601	18,957,820
United States	1,854,347	787,261
Other	224,535	288,435
	\$ 23,017,483	20,033,516

The revenue information above is based on locations of the customers.

25. Subsequent events

(a) Strategic Innovation Fund - non-interest bearing

Subsequent to the statement of financial position date, the Company made additional draws against the \$7.6 million repayable investment under the Strategic Innovation Fund Program (Note 11). Proceeds of these draws were \$667,701 and the difference between the proceeds received and fair value is recognized as government assistance.

(b) Operating line of credit

The Company has a short-term bank operating line of credit. Subsequent to year end, the Company increased the capacity of the operating line of credit temporarily from \$2,500,000 to \$3,500,000 and defined marginable accounts receivable minus specified liabilities (Note 11). The repayment terms remain the same. The capacity will return to \$2,500,000 on March 15, 2020.

Bluedrop Performance Learning Inc.

Notes to the Consolidated Financial Statements

Year ended September 30, 2019In Canadian dollars

25. Subsequent events (continued)

(c) Government assistance and other funding

On May 29, 2019, the Company announced an investment from the Boeing Company to develop a next-generation Special Mission Aviator Ramp Trainer (SMART) for the V-22 Osprey. Subsequent to year-end, the investment funding amount was finalized to be \$2.6 million USD. The funding will be recognized in government assistance and other funding on the consolidated statement of comprehensive income (loss).

(d) Share purchase loans

Subsequent to the statement of financial position date, the Company has amended the terms of the share purchase loans to a director of the Company (Note 19), to extend the maturity dates from December 31, 2019 to December 31, 2021. All other terms of the loans remain unchanged.

26. Comparative figures

Certain comparative figures have been reclassified to conform with the September 30, 2019 financial statement presentation.