

BPLI Holdings Inc.
(formerly Bluedrop Performance Learning Inc.)

Condensed Consolidated Interim Financial Statements
(unaudited)

Six months ended March 31, 2020

Notice of No Auditor Review of Interim Financial Statements

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

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

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BPLI Holdings Inc.Consolidated Statements of Financial Position
Unaudited**March 31 September 30**
2020 2019

In Canadian dollars

ASSETS

Current assets

Cash	\$	1,172,865	150,488
Accounts receivable (Note 4)		7,173,449	7,905,225
Contract assets		1,278,938	1,688,607
Work in progress		851,241	33,989
Other current assets (Note 5)		591,017	434,885
		11,067,510	10,213,194

Work in progress		-	607,019
Deferred tax assets		2,094,817	2,808,350
Goodwill and other intangible assets (Note 6)		2,735,219	2,938,908
Property and equipment (Note 7)		833,009	904,742
Right-of-use assets (Note 8)		2,325,294	-
Other long-term assets (Note 5)		254,191	98,438
	\$	19,310,040	17,570,651

LIABILITIES AND EQUITY

Current liabilities

Bank indebtedness (Note 9)	\$	-	970,174
Accounts payable and accruals		2,679,302	3,937,378
Deferred development funding (Note 10)		783,677	-
Contract liabilities		4,740,315	4,994,893
Current portion of long-term debt (Note 9)		626,802	666,703
Other current liabilities (Note 11)		920,476	393,207
		9,750,572	10,962,355

Long-term debt (Note 9)		2,228,748	2,311,843
Discounted royalty obligations (Note 12)		3,891,127	3,851,295
Long-term contract liabilities		310,256	130,583
Deferred tax liabilities		269,714	305,672
Other long-term liabilities (Note 11)		1,875,238	5,213
		18,325,655	17,566,961

Equity

Share capital (Note 13)		6,916,378	6,916,378
Contributed surplus		1,305,008	1,305,008
Deficit		(7,237,001)	(8,217,696)
		984,385	3,690
	\$	19,310,040	17,570,651

Approved on Behalf of the Board


Derrick H. Rowe
Director

Emad Rizkalla
Director

BPLI Holdings Inc.

Consolidated Statements of Comprehensive Income (Loss)

Unaudited

Six months ended March 31

In Canadian dollars

	Three Months Ended March 31		Six Months Ended March 31	
	2020	2019	2020	2019
Revenue				
Courseware development services	\$ 1,465,051	1,546,981	\$ 3,212,134	2,713,533
In-service support	3,307,426	2,548,386	6,033,707	4,610,600
Software licensing and subscriptions	1,076,573	779,398	2,230,928	1,439,341
Simulation products	322,434	148,514	836,916	148,514
	6,171,484	5,023,279	12,313,685	8,911,988
Direct costs	2,827,265	2,668,568	5,766,226	4,991,391
Gross profit	3,344,219	2,354,711	6,547,459	3,920,597
Expenses				
Sales and marketing	541,774	509,698	1,035,609	1,073,249
General and administration	1,201,090	1,831,532	2,477,028	3,088,130
Research and development costs	1,627,854	1,610,399	2,900,099	2,779,289
Government assistance and other funding (Note 14)	(791,686)	(435,036)	(2,749,798)	(687,955)
Finance costs, net (Note 15)	161,326	217,641	508,831	510,832
Depreciation and amortization (Note 6, 7 and 8)	328,004	171,093	662,219	341,664
Other (gains) and losses (Note 16)	(191,734)	173	(110,961)	(54,995)
	2,876,628	3,905,500	4,723,027	7,050,214
Profit (loss) before income taxes	467,591	(1,550,789)	1,824,432	(3,129,617)
Income tax expense (recovery)				
Current	(39,203)	-	166,162	-
Deferred	309,136	(457,482)	677,575	(898,953)
	269,933	(457,482)	843,737	(898,953)
Net profit (loss) and comprehensive income (loss)	\$ 197,658	(1,093,307)	\$ 980,695	(2,230,664)
Net profit (loss) per share				
Basic	\$ 0.00	(0.01)	\$ 0.01	(0.02)
Diluted	\$ 0.00	(0.01)	\$ 0.01	(0.02)
Weighted average number of shares outstanding (Note 13)				
Basic	101,901,142	94,946,368	101,901,142	93,512,714
Diluted	101,901,142	94,946,368	101,901,142	93,512,714

BPLI Holdings Inc.

Consolidated Statements of Changes in Equity

Unaudited

Six months ended March 31

In Canadian dollars

	Ordinary Common Shares	Share Capital	Contributed surplus	Deficit	Total
October 1, 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	-	-	-	(2,230,664)	(2,230,664)
March 31, 2019	107,657,793	6,916,378	1,305,008	(6,089,249)	2,132,137
Net loss and comprehensive loss	-	-	-	(2,128,447)	(2,128,447)
September 30, 2019	107,657,793	6,916,378	1,305,008	(8,217,696)	\$ 3,690
Net profit (loss) and comprehensive income (loss)	-	-	-	980,695	980,695
March 31, 2020	107,657,793	\$ 6,916,378	\$ 1,305,008	\$ (7,237,001)	\$ 984,385

BPLI Holdings Inc.

Consolidated Statements of Cash Flows

Six months ended March 31

2020

2019

In Canadian dollars

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

Net income (loss) for the period	\$	980,695	(2,230,664)
Items not affecting cash:			
Share-based compensation		-	1,604
Depreciation and amortization		662,219	341,664
Non-cash government assistance		(475,080)	(352,237)
Finance costs		688,316	634,784
Finance income		(179,485)	(123,952)
Deferred taxes		677,575	(898,953)
Unrealized loss on derivative instruments		(33,725)	32,389
Gain on settlement of lease liability		(4,000)	-
Net foreign exchange differences		55,291	(21,901)
Interest paid		(43,986)	9,187
		2,327,820	(2,608,079)
Changes in non-cash working capital (Note 17)		69,240	1,984,319
Net change in cash from operating activities		2,397,060	(623,760)

Investing activities

Purchase of property and equipment		(146,949)	(361,998)
Net change in cash from investing activities		(146,949)	(361,998)

Financing activities

Advances of long-term debt		667,701	470,432
Repayment of lease obligations		(274,014)	(11,051)
Repayment of long-term debt		(466,505)	(1,222,047)
Repayment of discounted royalty obligations		(117,981)	(105,250)
Share options exercised		-	1,127,446
Repurchase of shares under normal course issuer bid		-	(28,640)
Interest paid		(12,253)	(41,356)
Net change in cash from financing activities		(203,052)	189,534

Increase (decrease) in cash

Cash, beginning of period		(819,686)	1,638,177
Net foreign exchange impact on cash		(54,508)	20,956
Cash, end of period	\$	1,172,865	862,909

BPLI Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2020

In Canadian dollars

1. Nature of operations

BPLI Holdings Inc. (formerly Bluedrop Performance Learning Inc.) ("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. On March 10, 2020, Bluedrop Performance Learnings Inc. changed names to BPLI Holdings Inc. 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 condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on May 28, 2020.

2. Basis of presentation

These condensed consolidated interim financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) and in accordance with International Accounting Standard (IAS) 34 Consolidated Interim Financial Reporting using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board (IASB). These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the preparation of the Company's audited annual financial statements for the year ended September 30, 2019, except as identified in Note 3. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended September 30, 2019.

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

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

3. Significant accounting policies and adoption of new accounting standards

(a) Estimation uncertainty - Impact of COVID-19 global pandemic

In March 2020, the World Health Organization declared coronavirus (COVID-19) as a global pandemic. This contagious disease outbreak resulted in the governments worldwide enacting emergency measures to combat the spread of the virus, which includes the implementation of travel bans, self-imposed quarantine periods, and social distancing. These measures could impact the Company's operations whether through supply chain or demand. Although the ultimate duration and impacts of the COVID-19 pandemic are not currently known, management has used the best data available as at March 31, 2020 in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and reported earnings for the period. Actual results could differ from those estimates. The estimates that the Company considers could be most significantly impacted by COVID-19 include revenue recognition and impairment of financial assets.

(b) 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, and the Company has adopted the standard on October 1, 2019.

BPLI Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2020In Canadian dollars

3. Significant accounting policies and adoption of new accounting standards (continued)

The Company has elected to adopt the standard using the modified retrospective method and therefore comparative information for fiscal 2019 has not been restated. The Company has recognized new assets and liabilities for all leases that were previously classified as operating leases, other than those that were excluded due to the elected practical expedients. The Company applied the following practical expedients upon transition:

- The previous determination pursuant to IAS 17 and IFRIC 4, Determining Whether an Arrangement Contains a Lease, of whether a contract is a lease has been maintained for existing contracts;
- The Company exercised the option not to apply the new recognition requirements to short-term leases with a term of 12 months or less (and no purchase option) and leases of low-value assets;
- Initial direct costs will not be taken into account in the initial measurement of the right-of-use assets as at October 1, 2019;
- The Company relied on the assessment of whether leases are onerous immediately before the date of initial application;
- The Company elected to measure the right-of-use asset on a lease by lease basis at an amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments.

As at October 1, 2019, the Company recognized additional assets under Right-of-use assets and liabilities under Other liabilities on the consolidated statements of financial position of \$2.5 million each (see note 8 and 11). In addition, the nature of the expenses related to the lease has changed as IFRS 16 replaces the straight-line operating lease expense with depreciation expense for right-of-use assets and interest expense on the lease liabilities using the effective interest method.

The following table reconciles the operating lease payments as at September 30, 2019 to the lease liabilities recognized as at October 1, 2019:

Minimum lease payments under operating leases as at September 30, 2019	\$ 3,296,693
Recognition exemption for:	
Short-term leases	(2,180)
Reasonably certain extension options	846,720
Variable non-lease components	(1,346,771)
Lease obligation as at October 1, 2019 (gross, without discounting)	2,794,462
Effect from discounting at the incremental borrowing rate as at October 1, 2019	(281,062)
Liabilities recognized based on initial application of IFRS 16 as at October 1, 2019	2,513,400
Current portion of lease liabilities as at September 30, 2019	18,010
Long-term portion of lease liabilities as at September 30, 2019	5,212
Total lease liabilities as of October 1, 2019	\$ 2,536,622

Accounting Policy

At inception, the Company assess whether a contract is or contains a lease which involves the exercise of judgment. The company has elected not to separate lease and non-lease components for its right-of-use (ROU) assets. The Company has elected not to recognize ROU assets and lease liabilities for leases where the total lease term is less than 12 months, or for a lease of low value. The payments for these leases will be recognized on a straight-line basis over the lease term as operating expenses.

Lease assets are capitalized at the commencement date of the lease and ROU assets are initially measured on the present value of the lease payments, plus initial direct costs incurred when entering into a lease and lease payments made at or before the commencement date, less any lease incentives received. The ROU assets are depreciated over the shorter of the lease term or the estimated useful life of the underlying asset. An impairment review is undertaken for any ROU asset that shows indicators of impairment and an impairment loss is recognized against the ROU asset that is impaired.

The lease liability is measured at the present value of the fixed and eligible variable lease payments that depend on an index or rate, net of any lease incentives at the initial measurement date. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments. The present value of the lease payments is determined using the discount rate representing the Company's incremental borrowing rate on the lease commencement date, adjusted for the applicable currency of the lease contract, similar tenor and nature of the asset being leased. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

BPLI Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2020In Canadian dollars

3. Significant accounting policies and adoption of new accounting standards (continued)

(c) 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.

The Company has adopted these amendments on October 1, 2019. The amendments did not have any impact on its financial statements.

(d) *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 has adopted these amendments on October 1, 2019. The amendments did not have any impact on its financial statements.

4. Accounts receivable

	March 31	September 30
	2020	2019
Trade	\$ 4,648,260	5,649,977
Government assistance - digital media tax credits	2,058,699	1,784,861
Government assistance - other	293,781	303,160
Other	172,709	167,227
	<u>\$ 7,173,449</u>	<u>7,905,225</u>

5. Other assets

	March 31	September 30
	2020	2019
Prepaid expenses	\$ 562,891	236,944
Cost of obtaining a contract (current portion)	112,500	126,563
Share purchase loan (Note 19)	169,816	169,816
Total other assets	<u>\$ 845,207</u>	<u>533,323</u>
less: current portion	(591,017)	(434,885)
Long term other assets	<u>\$ 254,190</u>	<u>98,438</u>

BPLI Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2020

In Canadian dollars

6. Goodwill and other intangible assets

	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost					
October 1, 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
March 31, 2020	\$ 61,815	2,239,042	2,905,000	1,853,131	7,058,988
Accumulated amortization and impairment losses					
October 1, 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
Amortization	-	87,689	116,000	-	203,689
March 31, 2020	\$ 61,815	2,226,954	2,035,000	-	4,323,769
Carrying values					
October 1, 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
March 31, 2020	\$ -	12,088	870,000	1,853,131	2,735,219

7. Property and equipment

	Computer equipment and software	Furniture fixtures and equipment	Leasehold Improvements	Total
Cost				
October 1, 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
Transfers (Note 8)	(168,994)	(87,735)	-	(256,729)
Additions	106,842	23,360	16,747	146,949
March 31, 2020	\$ 1,455,104	806,975	519,337	2,781,416
Accumulated depreciation				
October 1, 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
Transfers (Note 8)	(161,192)	(77,251)	-	(238,443)
Depreciation	139,492	6,885	54,019	200,396
March 31, 2020	\$ 933,426	730,815	284,166	1,948,407
Carrying values				
October 1, 2018	\$ 188,342	33,853	1,469	223,664
September 30, 2019	\$ 562,130	70,169	272,443	904,742
March 31, 2020	\$ 521,678	76,160	235,171	833,009

The Company has transferred the carrying value of computer equipment and furniture, fixtures and equipment of \$18,286 held under finance lease and previously classified as property and equipment as at September 30, 2019 to right-of-use assets.

BPLI Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2020

In Canadian dollars

8. Right-of-use assets

Cost	Office Lease	Computer equipment	Furniture fixtures and equipment	Total
October 1, 2019	\$ 2,513,400	-	-	2,513,400
Transfers (Note 7)	-	168,994	87,735	256,729
Additions	24,070	36,272	-	60,342
Disposals	-	(32,253)	-	(32,253)
March 31, 2020	\$ 2,537,470	173,013	87,735	2,798,218
Accumulated amortization				
October 1, 2019	\$ -	-	-	-
Transfers (Note 7)	-	161,192	77,251	238,443
Disposals	-	(23,653)	-	(23,653)
Amortization	247,145	6,688	4,301	258,134
March 31, 2020	\$ 247,145	144,227	81,552	472,924
Carrying values				
October 1, 2019	\$ 2,513,400	-	-	2,513,400
March 31, 2020	\$ 2,290,325	28,786	6,183	2,325,294

9. Long-term debt and operating facilities

	Term	March 31 2020	September 30 2019
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	(a) 2016-2020	-	41,249
Government of Nova Scotia - 5%	(b) 2013-2022	408,583	497,260
Atlantic Canada Opportunities Agency - non-interest bearing	(c) 2018-2023	1,765,735	1,971,408
Atlantic Canada Opportunities Agency - non-interest bearing	(d) 2015-2019	-	24,287
Strategic Innovation Fund - non-interest bearing	(e) 2025-2039	681,232	444,342
		2,855,550	2,978,546
less: current portion		(626,802)	(666,703)
Total long-term debt		\$ 2,228,748	2,311,843

(a) 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 secured by a general security agreement. The loan was repayable in monthly blended payments of \$12,500 until December 2019 and a final payment of \$4,512 was made in January 2020. The loan had been recorded using the effective interest method and the difference between the proceeds received and fair value was recognized as government assistance.

(b) 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.

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

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

BPLI Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2020In Canadian dollars

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

(d) 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 was repayable in 60 monthly installments of \$8,333 and has been repaid in full as at March 31, 2020. The loan was been recorded using the effective interest method and the difference between the proceeds received and fair value was recognized as government assistance.

(e) Strategic Innovation Fund - non-interest bearing

On May 16, 2018, the Company announced a \$7.6 million repayable investment under the Strategic Innovation Fund Program to support innovation and development of simulation capabilities. The unsecured, non-interest bearing loan is repayable in 15 annual repayments of \$735,722 commencing January 1, 2025. As at March 31, 2020 the Company has drawn \$2,246,173 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).

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

On March 26, 2020, the Company secured a \$2,000,000 funding contribution under the Atlantic Canada Opportunities Agency Regional Economic Growth through Innovation Program. As at March 31, 2020, the balance was undrawn. Subsequent to the date of the interim financial statements, the Company made its first draw (Note 22).

(g) Operating line of credit

The Company has a short-term bank operating line of credit that was renewed on April 23, 2018. During the first quarter the Company entered into an agreement to temporarily increase the line of credit to a maximum of the lesser of \$3,500,000 and defined marginable accounts receivable minus specified liabilities. The upper limit was then reduced to \$2,500,000 on March 15, 2020. The revolving 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 March 31, 2020, the Company has no balance drawn against the line of credit (September 30, 2019 - \$45,000).

10. Deferred development funding

	March 31	September 30
	2020	2019
Opening balance	\$ -	-
Funding provided	2,220,508	-
Development cost incurred	(1,436,831)	-
Ending balance	\$ 783,677	-

On May 29, 2019, the Company and The Boeing Company (Boeing) entered into an agreement whereby Boeing would contribute US\$2.6 million to the Company to support the development of the next generation Special Mission Aviator Ramp Trainer (SMART) for the V-22 Osprey.

The Company has incurred \$1,436,831 (including \$946,467 in prior periods) of cost associated with the development of the SMART up to March 31, 2020. During the six months ended March 31, 2020 the Company recognized an equal amount of funding corresponding to these costs with the remainder deferred to fund future development costs associated with the simulator.

11. Other liabilities

	March 31	September 30
	2020	2019
Lease obligations (Note 3)	\$ 2,358,150	23,223
Derivative liability	-	33,725
Current portion of discounted royalty obligations (Note 12)	437,564	341,472
	\$ 2,795,714	398,420
less: current portion	(920,476)	(393,207)
Total other liabilities	\$ 1,875,238	5,213

BPLI Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2020

In Canadian dollars

11. Other liabilities (continued)

Lease liabilities

For the six months ended March 31, 2020 the Company recognized \$49,465 of interest expense on the lease liabilities as finance costs in the consolidated statement of comprehensive income (loss).

The following amounts are recognized as general and administration costs in the consolidated statement of comprehensive income (loss) for the three and six months ended March 31, 2020:

	Three months ended	Six months ended
Expense related to short-term and low value leases	\$ 12,340	\$ 14,024
Variable lease payments	96,782	167,026
Total lease cost	\$ 109,122	\$ 181,050

12. Discounted royalty obligations

	March 31 2020	September 30 2019
Unsecured royalty obligation	\$ 1,643,870	1,683,877
ACOA-AIF unsecured royalty obligation	2,684,821	2,508,890
	4,328,691	4,192,767
less: current portion (included in other current liabilities)	(437,564)	(341,472)
Total long-term other financial liabilities	\$ 3,891,127	3,851,295

(a) Unsecured royalty obligation

The unsecured royalty obligation agreement requires BPLI 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 quarter, management revalued the unsecured royalty obligation due to a change in forecasted future cash flows and as a result recognized a gain of \$179,485 (Note 15).

(b) ACOA-AIF unsecured Royalty obligation

The Company has recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,984,419 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and product related services resulting from the research funded. As of March 31, 2020, \$531,477 (September 30, 2019 - \$531,477) has been repaid.

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, 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
Issued and outstanding at March 31, 2020	107,657,793	\$ 6,916,378

BPLI Holdings Inc.

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13. Share capital (continued)

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) Earnings (loss) per share

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

	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Common shares issued and outstanding, beginning of year	107,657,793	97,829,276	107,657,793	97,933,776
Weighted average shares purchased through normal course issuer bid	-	(61,567)	-	(107,740)
Weighted average shares issued on exercise of share options	-	2,935,310	-	1,443,329
Weighted average shares in treasury stock	(5,756,651)	(5,756,651)	(5,756,651)	(5,756,651)
Weighted average number of shares used in basic and diluted earnings per share	101,901,142	94,946,368	101,901,142	93,512,714

14. Government assistance and other funding

	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Government assistance included in income:	\$			
National Research Council	177,629	133,000	400,372	133,000
Innovate NL	11,407	98,092	39,962	102,587
Digital Media Tax Credits	236,718	44,896	397,553	100,131
Discounts on below-market interest rate debt (Note 9)	-	159,048	475,080	352,237
Other indirect government assistance included in income:				
The Boeing Company (Note 10)	365,932	-	1,436,831	-
	\$	791,686	435,036	2,749,798
			687,955	

15. Finance costs, net

	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Interest on long-term debt	\$	21,048	24,440	40,922
Accretion of other financial liabilities		219,013	216,359	432,842
Accretion of long-term debt		59,660	70,698	121,101
Short-term interest and bank charges		16,850	5,105	43,986
Interest on finance lease obligations		24,240	724	49,465
Other finance costs		-	18,400	-
Total finance cost		340,811	335,726	688,316
Revaluation of financial liabilities		(179,485)	(105,499)	(179,485)
Other interest income		-	(12,586)	-
Total finance income		(179,485)	(118,085)	(179,485)
Total finance costs, net	\$	161,326	217,641	508,831
				510,832

BPLI Holdings Inc.

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Six months ended March 31, 2020In Canadian dollars

16. Other (gains) and losses

	Three months ended		Six months ended	
	March 31		March 31	
	2020	2019	2020	2019
Gain on disposal	\$ -	-	(4,000)	(64,841)
Bad debt expense (recovery)	-	-	(2,607)	-
Share based compensation	-	845	-	1,604
Foreign exchange (gain) loss	(191,734)	(672)	(104,354)	8,242
Total other (gains) and losses	\$ (191,734)	173	(110,961)	(54,995)

17. Changes in non-cash working capital

	Six months ended	
	March 31	
	2020	2019
Accounts receivable	\$ 741,306	1,959,465
Contract assets	409,669	(381,683)
Work in progress	(210,233)	-
Other current assets	(156,132)	(348,731)
Other long-term assets	(155,753)	169,816
Accounts payable and accruals	(1,268,389)	725,490
Deferred development funding	783,677	-
Contract liabilities	(74,905)	(140,038)
	\$ 69,240	1,984,319

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:

	Three months ended		Six months ended	
	March 31		March 31	
	2020	2019	2020	2019
Salaries and other labour costs	\$ 4,372,347	4,985,905	8,692,747	9,041,047
Materials, services and supplies	1,286,292	610,958	2,366,669	1,192,804
Travel and living	122,817	159,942	273,206	305,371
Occupancy	101,184	224,312	181,050	422,313
Professional fees	263,629	528,350	493,047	690,461
Other costs	51,714	110,730	172,243	280,063
Total expenses classified by nature	\$ 6,197,983	6,620,197	12,178,962	11,932,059

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, 2021. As at March 31, 2020, the total amount receivable was \$169,816 (September 30, 2019 - \$169,816) and is included in other long-term assets on the statements of financial position (September 30, 2019 - other current assets).

BPLI Holdings Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2020In Canadian dollars

19. Related party transactions (continued)

(c) Key management personnel

Key management personnel include the President and Chief Executive Officer, the Chief Financial Officer, Corporate Secretary and the directors of the Company.

	Three months ended March 31		Six months ended March 31	
	2020	2019	2020	2019
Fees, salaries and benefits to key management personnel	\$ 376,090	\$ 385,536	\$ 600,140	\$ 568,961

(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. Included in Other liabilities on the consolidated statements of financial position is a lease obligation of \$1,043,517 for the rental of premises. The Company adopted IFRS 16 (Note 3), and as a result, rent expense is included under general and administration occupancy expenses, finance costs and depreciation and amortization in the amounts of \$74,228, \$21,836 and \$93,750 respectively.

20. Financial instruments

(a) Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on transactions incurred in US dollars. During the six months ended March 31, 2020, the Company recorded a \$104,374 gain on foreign currency (2019 - \$8,242 loss). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the six months ended March 31, 2020, the Company recorded revenue of \$5,458,664 from contracts denominated in US dollars (2019 - \$4,238,327). As at March 31, 2020, the Company held receivables of \$1,457,983 from contracts denominated in US dollars (September 30, 2019 - \$3,528,659).

(b) 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 46% of revenue (2019 - two customers - 52%) and three customers accounted for 51% of the Company's trade receivables at March 31, 2020 (September 30, 2019 - two customers - 62%).

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 March 31, 2020, was \$251,459 (September 30, 2019 - \$258,483). At March 31, 2020, the Company's trade accounts receivable included amounts over 90 days old totaling \$21,587 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (September 30, 2019 - \$921,404).

21. Segment reporting

BPLI Holdings Inc.'s is the publicly listed holding company for its two wholly owned operating divisions, Bluedrop Training and Simulation Inc. and Bluedrop Learning Networks Inc., to which it provides management oversight and shared corporate and financial services.

Bluedrop Training and Simulation business unit 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.

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21. Segment reporting

Bluedrop Learning Networks business unit 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 apportions a management fee based on a appropriate allocation of resources to those segments. Segment information for the reporting periods is as follows:

	Six months ended March 31, 2020			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue				
Courseware development services	\$ 760,973	2,451,161	-	3,212,134
In-service support	-	6,033,707	-	6,033,707
Software licensing and subscriptions	1,967,781	263,147	-	2,230,928
Simulation products	-	836,916	-	836,916
	<u>2,728,754</u>	<u>9,584,931</u>	<u>-</u>	<u>12,313,685</u>
Direct costs	771,421	4,994,805	-	5,766,226
Gross profit	<u>1,957,333</u>	<u>4,590,126</u>	<u>-</u>	<u>6,547,459</u>
Expenses				
Sales and marketing	558,858	476,751	-	1,035,609
General and administration	669,979	793,597	1,013,452	2,477,028
Management fee	211,240	898,288	(1,109,528)	-
Research and development costs	1,178,479	1,721,620	-	2,900,099
Government assistance and other funding	(256,232)	(2,018,486)	(475,080)	(2,749,798)
Finance costs	-	-	508,831	508,831
Depreciation and amortization	188,795	333,028	140,396	662,219
Other (gains) and losses	11,716	(146,816)	24,139	(110,961)
	<u>2,562,835</u>	<u>2,057,982</u>	<u>102,210</u>	<u>4,723,027</u>
(Loss) earnings before income taxes	<u>\$ (605,502)</u>	<u>2,532,144</u>	<u>(102,210)</u>	<u>1,824,432</u>

	Six months ended March 31, 2019			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue				
Courseware development services	\$ 1,086,778	1,626,755	-	2,713,533
In-service support	-	4,610,600	-	4,610,600
Software licensing and subscriptions	1,333,114	106,227	-	1,439,341
Simulation products	-	148,514	-	148,514
	<u>2,419,892</u>	<u>6,492,096</u>	<u>-</u>	<u>8,911,988</u>
Direct costs	867,888	4,123,503	-	4,991,391
Gross profit	<u>1,552,004</u>	<u>2,368,593</u>	<u>-</u>	<u>3,920,597</u>
Expenses				
Sales and marketing	700,644	369,995	2,610	1,073,249
General and administration	588,857	1,055,491	1,443,782	3,088,130
Management fee	305,161	825,064	(1,130,225)	-
Research and development costs	1,721,829	1,057,460	-	2,779,289
Government assistance and other funding	(168,092)	(167,626)	(352,237)	(687,955)
Finance costs	-	-	510,832	510,832
Depreciation and amortization	139,885	251,679	(49,900)	341,664
Other (gains) and losses	(57,022)	(13,731)	15,758	(54,995)
	<u>3,231,262</u>	<u>3,378,332</u>	<u>440,620</u>	<u>7,050,214</u>
(Loss) earnings before income taxes	<u>\$ (1,679,258)</u>	<u>(1,009,739)</u>	<u>(440,620)</u>	<u>(3,129,617)</u>

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21. Segment reporting (continued)

	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Total assets as at March 31, 2020	\$ 6,010,299	12,285,162	1,014,579	19,310,040
Total liabilities as at March 31, 2020	\$ 6,308,006	3,257,013	8,760,636	18,325,655
Total assets as at September 30, 2019	\$ 3,170,396	13,399,501	1,000,754	17,570,651
Total liabilities as at September 30, 2019	\$ 5,421,179	3,117,282	9,028,500	17,566,961

	Three months ended March 31, 2020			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue				
Courseware development services	\$ 392,426	1,072,625	-	1,465,051
In-service support	-	3,307,426	-	3,307,426
Software licensing and subscriptions	1,003,639	72,934	-	1,076,573
Simulation products	-	322,434	-	322,434
	1,396,065	4,775,419	-	6,171,484
Direct costs	357,120	2,470,145	-	2,827,265
Gross profit	1,038,945	2,305,274	-	3,344,219
Expenses				
Sales and marketing	284,057	257,717	-	541,774
General and administration	315,482	359,216	526,392	1,201,090
Management fee	67,626	426,574	(494,200)	-
Research and development costs	545,453	1,082,401	-	1,627,854
Government assistance and other funding	(80,119)	(711,567)	-	(791,686)
Finance costs	-	-	161,326	161,326
Depreciation and amortization	96,278	163,382	68,344	328,004
Other (gains) and losses	25,050	(234,928)	18,144	(191,734)
	1,253,827	1,342,795	280,006	2,876,628
(Loss) earnings before income taxes	\$ (214,882)	962,479	(280,006)	467,591

	Three months ended March 31, 2019			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue				
Courseware development services	\$ 641,725	905,256	-	1,546,981
In-service support	-	2,548,386	-	2,548,386
Software licensing and subscriptions	741,909	37,489	-	779,398
Simulation products	-	148,514	-	148,514
	1,383,634	3,639,645	-	5,023,279
Direct costs	465,311	2,203,257	-	2,668,568
Gross profit	918,323	1,436,388	-	2,354,711
Expenses				
Sales and marketing	317,661	189,427	2,610	509,698
General and administration	138,699	120,612	1,572,221	1,831,532
Management fee	350,722	948,248	(1,298,970)	-
Research and development costs	1,010,912	599,487	-	1,610,399
Government assistance and other funding	(168,092)	(107,896)	(159,048)	(435,036)
Finance costs	-	-	217,641	217,641
Depreciation and amortization	47,385	94,931	28,778	171,093
Other (gains) and losses	7,905	41,216	(48,948)	173
	1,705,191	1,886,025	314,284	3,905,500
(Loss) earnings before income taxes	\$ (786,868)	(449,637)	(314,284)	(1,550,789)

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Six months ended March 31, 2020In Canadian dollars

21. Segment reporting (continued)Revenue by geographic location

	Three months ended		Six months ended	
	March 31		March 31	
	2020	2019	2020	2019
Canada	\$ 5,776,672	4,694,175	11,491,308	8,309,949
United States	92,169	315,952	177,332	529,031
Other	302,643	13,152	645,045	73,008
	\$ 6,171,484	5,023,279	12,313,685	8,911,988

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

22. Comparative figures

Certain comparative figures have been reclassified to conform with the March 31, 2020 financial statement presentation. Specifically, the prior period segment note has been reclassified to conform with the March 31, 2020 presentation.

22. Subsequent eventsAtlantic Canada Opportunities Agency

Subsequent to the quarter end, the Company has drawn \$1,534,960 against the Atlantic Canada Opportunities Agency - non-interest bearing loan. The difference between the funding drawn and the fair value is recognized as other income (Note 9).

Strategic Innovation Fund

Subsequent to the quarter end, the Company made additional draws against the \$7.6 million repayable investment under the Strategic Innovation Fund Program (Note 9). Proceeds of these draws totalled \$853,891. The difference between proceeds received and fair value is recognized as government assistance.