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

Consolidated Financial Statements

Years ended September 30, 2020 and 2019

Contents

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of BPLI Holdings Inc.

Opinion

We have audited the consolidated financial statements of BPLI Holdings Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at September 30, 2020 and September 30, 2019
- 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").

PIn 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, 2020 and September 30, 2019, 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 International Financial Reporting Standards (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 Carey Blair.

St. John's, Canada

January 25, 2021

BPLI Holdings Inc.

Consolidated Statements of Financial Position

In Canadian dollars

		September 30 2020	September 30 2019
ASSETS			
Current assets			
Cash	$	5,499,263	150,488
Accounts receivable (Note 5)		11,381,482	7,905,225
Contract assets (Note 6)		968,104	1,688,607
Work in progress		295,091	33,989
Other current assets (Note 7)		434,416	434,885
		18,578,356	10,213,194
Work in progress		-	607,019
Deferred tax assets (Note 8)		1,422,527	2,808,350
Goodwill and other intangible assets (Note 9)		2,607,131	2,938,908
Property and equipment (Note 10)		808,587	904,742
Right-of-use assets (Note 11)		2,069,868	-
Other long-term assets (Note 7)		240,129	98,438
	$	25,726,598	17,570,651
LIABILITIES AND EQUITY			
Current liabilities			
Bank indebtedness (Note 12)	$	-	970,174
Accounts payable and accruals		3,659,365	3,937,378
Income tax payable		530,662	-
Deferred development funding (Note 13)		894,324	-
Contract liabilities (Note 6)		6,795,850	4,994,893
Current portion of long-term debt (Note 12)		284,606	666,703
Other current liabilities (Note 14)		2,683,076	393,207
		14,847,883	10,962,355
Long-term debt (Note 12)		3,257,302	2,311,843
Discounted royalty obligations (Note 15)		2,495,399	3,851,295
Long-term contract liabilities (Note 6)		161,942	130,583
Deferred tax liabilities (Note 8)		398,003	305,672
Other long-term liabilities (Note 14)		1,629,129	5,213
		22,789,658	17,566,961
Equity			
Share capital (Note 16)		6,889,728	6,916,378
Contributed surplus		1,305,008	1,305,008
Deficit		(5,257,796)	(8,217,696)
		2,936,940	3,690
	$	25,726,598	17,570,651

Approved on Behalf of the Board

Subsequent events (Note 12 and 27)

Derrick H. Rowe
Director

Emad Rizkalla
Director

BPLI Holdings Inc.

Consolidated Statements of Comprehensive Income (Loss)

Year ended September 30

In Canadian dollars

		2020	2019
Revenue			
Courseware development services	$	6,569,672	5,957,991
In-service support		12,552,552	10,743,541
Software licensing and subscriptions		5,025,799	3,522,604
Simulation products		1,284,098	2,793,347
		25,432,121	23,017,483
Direct costs		12,282,472	12,182,749
Gross profit		13,149,649	10,834,734
Expenses and other income			
Sales and marketing		2,257,359	2,349,858
General and administration		5,823,000	5,957,740
Research and development costs		6,126,478	5,473,342
Finance costs, net (Note 18)		1,275,380	992,212
Depreciation and amortization (Note 9, 10, and 11)		1,267,861	717,911
Government assistance and other funding (Note 17)		(8,555,151)	(2,539,721)
Other (gains) and losses (Note 19)		(90,019)	51,499
		8,104,908	13,002,841
Profit (loss) before income taxes		5,044,741	(2,168,107)
Income tax expense			
Current (Note 8)		573,861	-
Deferred (Note 8)		1,478,154	2,191,004
		2,052,015	2,191,004
Net profit (loss) and comprehensive income (loss)	$	2,992,726	(4,359,111)
Net profit (loss) per share			
Basic	$	0.03	(0.04)
Diluted	$	0.03	(0.04)
Weighted average number of shares outstanding (Note 16)			
Basic		101,829,205	97,729,973
Diluted		101,829,205	97,729,973

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 16)	(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
Repurchase of shares under normal course issuer bid (Note 16)	(533,000)		(26,650)		-		(32,826)		(59,476)
Net profit (loss) and comprehensive income (loss)	-		-		-		2,992,726		2,992,726
September 30, 2020	107,124,793	$	6,889,728	$	1,305,008	$	(5,257,796)	$	2,936,940

BPLI Holdings Inc.

Consolidated Statements of Cash Flows

Year ended September 30		**2020**	**2019**
In Canadian dollars			
Increase (decrease) in cash			
Operating activities			
Net income (loss) for the period	$	2,992,726	(4,359,111)
Items not affecting cash:			
Share-based compensation		-	1,604
Depreciation and amortization		1,267,861	717,911
Non-cash government assistance		(2,403,741)	(822,374)
Finance costs		1,397,433	1,294,632
Finance income		(122,053)	(302,419)
Deferred taxes		1,478,154	2,191,004
Unrealized (gain) loss on derivative instruments		(75,072)	66,114
Loss on settlement of financial liabilities		17,185	-
Net foreign exchange differences		(78,547)	(5,038)
Interest paid		(65,340)	(18,122)
		4,408,606	(1,235,800)
Changes in non-cash working capital (Note 20)		484,154	503,990
Net change in cash from operating activities		4,892,760	(731,810)
Investing activities			
Purchase of property and equipment		(344,655)	(974,461)
Net change in cash from investing activities		(344,655)	(974,461)
Financing activities			
Advances of long-term debt		3,491,413	1,115,503
Repayment of lease obligations		(559,053)	(22,488)
Repayment of long-term debt		(897,189)	(2,565,193)
Repayment of discounted royalty obligations		(252,594)	(311,996)
Share options exercised		-	1,127,446
Repurchase of shares under normal course issuer bid		(59,476)	(28,640)
Interest paid		(17,559)	(65,607)
Net change in cash from financing activities		1,705,542	(750,975)
Increase (decrease) in cash		6,253,647	(2,457,246)
Cash, beginning of period		(819,686)	1,638,177
Net foreign exchange impact on cash		65,302	(617)
Cash, end of period	$	5,499,263	(819,686)
Cash consists of:			
Cash on hand and in bank	$	5,499,263	150,488
Bank indebtedness		-	(970,174)
	$	5,499,263	(819,686)

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 its name to BPLI Holdings Inc. These consolidated financial statements comprise the Company and its 100% owned operating subsidiaries as follows:

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

The Company provides e-learning and course development services and offers online training solutions for businesses and individuals through cloud-based learning management solutions and traditional learning management systems. In addition, the Company provides custom courseware development, training products, low cost simulation and in-service support solutions to improve the safety, productivity and efficiency of military and civil aviation personnel through its Training & 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 25, 2021.

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.

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 comprehensive income (loss) 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

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

At inception, the Company assesses whether a contract is or contains a lease. The company has elected not to separate lease and non-lease components for its right-of-use assets. The Company has elected not to recognize right-of-use 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 recognized at the commencement date of the lease as a right-of-use asset. The 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 right-of-use 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 right-of-use asset that shows indicators of impairment and an impairment loss is recognized against the right-of-use 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.

(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.

(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.

3. Significant accounting policies (continued)

(h) Revenue recognition (continued)

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.

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 recognised 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 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), Digital Media Tax Credit (DMTC) and Canadian Emergency Wage Subsidy (CEWS) 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, CEWS 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.

3. Significant accounting policies (continued)

(k) 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 is not recognized for temporary differences related to investments in subsidiaries, associates, and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future. 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 assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profit improves. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used. 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.

(l) 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.

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
Royalty obligations	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.

3. Significant accounting policies (continued)

(l) Financial instruments (continued)

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.

(m) 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.

(n) 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.

(o) 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.

3. Significant accounting policies (continued)

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.

(p) Impairment of financial assets

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.

(q) 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.

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.

3. Significant accounting policies (continued)

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, DMTC and CEWS 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. The substance of the transaction is not within the scope of IFRS 15. In the absence of an IFRS specifically applied to this transaction, the measurement and recognition of the arrangement has been accounted for in accordance with *IFRS 15 - Revenue from contracts with customers.* Income is recognized over time using the input cost method, measured by the percentage of costs incurred to date to the estimated total costs. The funding is recognized on the consolidated statement of comprehensive income as Government assistance and other funding.

<u>Estimation uncertainty</u>

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) 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 September 30, 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 timing of revenue recognition, expected future cash flows and impairment of financial assets.

ii) 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.

3. Significant accounting policies (continued)

iii) 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. COVID-19 has heightened the inherent uncertainty in these assumptions. The Company's financial forecasts reflect the outcomes that management considers most likely based on information available at the date of the signing of these financial statements.

iv) 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-along 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.

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 consolidated statement of comprehensive income (loss).

vi) Income tax expense

Management has made certain estimates related to income tax filing positions subject to acceptance by the tax authorities. The estimation of income taxes includes the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income before they expire. Changes in these assumptions or changes as a result of tax positions not being accepted may result in a material change to taxes payable and income tax expense.

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. The impact of COVID-19 on the recoverability of trade receivables have been considered. While the methodologies and assumptions applied in the base expected credit loss calculations remained unchanged from those applied in the prior financial year, management has incorporated estimates, assumptions and judgements specific to the impact of the COVID-19 pandemic. While no material recoverability issues have been identified, there is a risk that the economic impact of COVID-19 could be deeper or more prolonged than anticipated, 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

(a) *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.

In Canadian dollars

4. New and future 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 leases 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 lease payments		(1,346,771)
Minimum lease payments 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)
Current portion of lease liabilities as at September 30, 2019		18,010
Long-term portion of lease liabilities as at September 30, 2019		5,213
Total lease liabilities as of October 1, 2019	$	2,536,623

Accounting Policy

At inception, the Company assesses 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 assets. The Company has elected not to recognize right-of-use 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 recognized at the commencement date of the lease as a right-of-use asset. The 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 right-of-use 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 right-of-use asset that shows indicators of impairment and an impairment loss is recognized against the right-of-use 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.

4. New and future accounting standards (continued)

(b) 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.

(c) *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.

(d) 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 October 1, 2020. The extent of the impact of the change has not yet been determined

(e) 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.

In Canadian dollars

5. Accounts receivable

		September 30 2020	September 30 2019
Trade, net	$	7,097,378	5,649,977
Government assistance - digital media tax credits		1,320,799	1,784,861
Government assistance - Canadian Emergency Wage Subsidy		2,796,857	-
Government assistance - other		113,385	303,160
Other		53,063	167,227
	$	11,381,482	7,905,225

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).

		2020	2019
As at October 1	$	258,483	222,536
Provision for expected credit losses		3,485	27,641
Write-off		(32,482)	-
Foreign exchange movement		5,831	8,306
	$	235,317	258,483

6. Contract balances

(a) Contract balances

		2020	2019
Trade receivables (Note 5)	$	7,097,378	5,649,977
Contract assets		968,104	1,688,607
Current portion of contract liabilities		6,795,850	4,994,893
Long-term portion of contract liabilities		161,942	130,583

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.

		2020	2019
As at October 1	$	5,125,476	3,920,458
Advances received from customers during the year		6,533,008	4,823,510
Revenue recognized from opening contract liabilities		(4,700,692)	(3,618,492)
	$	6,957,792	5,125,476

(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, 2020:

		1 year	> 1 year
Courseware development services	$	4,434,086	1,257,649
In-service support		11,118,343	25,851,533
Software licensing and subscriptions		7,718,375	9,109,878
Simulation products		995,064	569,520
	$	24,265,868	36,788,580

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.

In Canadian dollars

7. Other assets

		September 30 2020	September 30 2019
Prepaid expenses	$	364,944	236,944
Derivative asset (Note 23)		41,347	-
Cost of obtaining a contract		98,438	126,563
Share purchase loan (Note 22)		169,816	169,816
Total other assets	$	674,545	533,323
less: current portion		(434,416)	(434,885)
Long term other assets	$	240,129	98,438

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:

		2020	2019
Earnings before income tax	$	5,044,741	(2,168,107)
Statutory tax rate		30.0%	30.0%
Expected tax expense		1,513,422	(650,432)
Non-deductible share based compensation		-	485
Other non-deductible expenses		17,319	26,917
Adjustments in respect of current income tax of previous year		(132,160)	-
Effect of change in enacted tax rates		99,394	-
Effect of difference in statutory tax rates of subsidiaries		-	4,785
Change in valuation of deferred tax assets		554,040	2,809,249
	$	2,052,015	2,191,004

Current income tax expense			
Current income tax charge		487,460	-
Adjustments in respect of current income tax of previous year		86,401	-
Deferred tax expense			
Origination and reversal of temporary differences		924,114	(606,628)
Change in recognized deductible temporary differences		554,040	2,797,632
	$	2,052,015	2,191,004

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 2020	September 30 2019
Intangible assets	$	(367,384)	(458,016)
Property and equipment		551,526	740,499
Long-term debt		(1,109,074)	(486,786)
Other financial liabilities		543,726	505,163
Contract liabilities		362,416	181,747
Non-capital losses		1,043,314	2,020,071
	$	1,024,524	2,502,678
Deferred tax assets		1,422,527	2,808,350
Deferred tax liabilities		(398,003)	(305,672)
	$	1,024,524	2,502,678

Deferred tax liabilities of $3,716,465 (2019 - $5,336,235) 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.

In Canadian dollars

8. Income taxes (continued)

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 2020	September 30 2019
Deductible temporary differences	$	3,375,523	2,559,905
Non-capital losses		2,895,052	3,135,396

Non-capital losses are scheduled to expire from 2025 to 2036.

9. Goodwill and other intangible assets

		Technology and other	Customer Relationships	Goodwill	Total
Cost					
October 1, 2018	$	3,203,918	2,905,000	1,853,131	7,962,049
Disposals		(903,061)	-	-	(903,061)
September 30, 2019	$	2,300,857	2,905,000	1,853,131	7,058,988
September 30, 2020	$	2,300,857	2,905,000	1,853,131	7,058,988
Accumulated amortization and impairment losses					
October 1, 2018	$	2,939,470	1,659,143	-	4,598,613
Amortization		164,671	259,857	-	424,528
Disposals		(903,061)	-	-	(903,061)
September 30, 2019	$	2,201,080	1,919,000	-	4,120,080
Amortization		99,777	232,000	-	331,777
September 30, 2020	$	2,300,857	2,151,000	-	4,451,857
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
September 30, 2020	$	-	754,000	1,853,131	2,607,131

No development expenditures, or related government assistance, have been capitalized in intangible assets during the year. Technology assets above include the *Bluedrop360™* platform. The Company also has a customer list included in Customer Relationships above that has a net book value of $754,000 and a remaining useful life of three years and three months.

(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, 2020, $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.

In Canadian dollars

10. 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 11)		(168,994)	(87,735)	-	(256,729)
Additions		239,285	28,127	77,243	344,655
September 30, 2020	$	1,587,547	811,742	579,833	2,979,122
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 11)		(161,192)	(77,251)	-	(238,443)
Depreciation		297,882	8,998	115,644	422,524
September 30, 2020	$	1,091,816	732,928	345,791	2,170,535
Carrying values					
October 1, 2018	$	188,342	33,853	1,469	223,664
September 30, 2019	$	562,130	70,169	272,443	904,742
September 30, 2020	$	495,731	78,814	234,042	808,587

On October 1, 2020, 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.

11. Right-of-use assets

Cost		Office Lease	Computer equipment	Furniture fixtures and equipment	Total
October 1, 2019 on adoption of IFRS 16 *Leases*	$	2,513,400	-	-	2,513,400
Transfers (Note 10)		-	168,994	87,735	256,729
Additions		24,070	36,272	-	60,342
Disposals		-	(32,253)	-	(32,253)
September 30, 2020	$	2,537,470	173,013	87,735	2,798,218
Accumulated amortization					
October 1, 2019	$	-	-	-	-
Transfers (Note 10)		-	161,192	77,251	238,443
Disposals		-	(23,653)	-	(23,653)
Amortization		497,829	7,803	7,928	513,560
September 30, 2020	$	497,829	145,342	85,179	728,350
Carrying values					
September 30, 2019	$	-	-	-	-
October 1, 2019	$	2,513,400	-	-	2,513,400
September 30, 2020	$	2,039,641	27,671	2,556	2,069,868

In Canadian dollars

12. Long-term debt and operating facilities

		Term	September 30 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	-	497,260
Atlantic Canada Opportunities Agency - non-interest bearing	(c)	2015-2019	-	24,287
Atlantic Canada Opportunities Agency - non-interest bearing	(d)	2018-2023	1,725,565	1,971,408
Strategic Innovation Fund - non-interest bearing	(e)	2025-2039	1,155,054	444,342
Atlantic Canada Opportunities Agency - non-interest bearing	(f)	2020-2030	661,289	-
			3,541,908	2,978,546
less: current portion			(284,606)	(666,703)
Total long-term debt			$ 3,257,302	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 bearing interest at 5.0% per annum which was secured against certain property. The facility was repayable in monthly principal payments of $16,579, plus interest, until May 2022. On June 30, 2020, the Company elected to repay the loan early. This resulted in a loss on settlement of $22,944 which has been recognized in other (gains) and losses in the consolidated statement of comprehensive income (loss). 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.

(c) 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 September 30, 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.

(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. In April 2020, the Company was provided a three month payment deferral and in July 2020, a further six month payment deferral as a result of COVID-19 support programs which extended the payment terms by a total of nine months. There were no other changes to the existing terms and as a result the amendment was not assessed as a substantial modification. 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) 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, 2020 the Company has drawn $3,534,925 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 17).

In Canadian dollars

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

(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. The unsecured, non-interest bearing loan is repayable in 96 monthly installments of $20,833 beginning on January 1, 2023. As at September 30, 2020 the Company has drawn $1,534,960 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 17).

(g) Operating line of credit

The Company had 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 was repayable on demand and bears interest at Royal Bank prime plus 2.20%. The Company provided a General Security Agreement as security for this indebtedness. The Company terminated the agreement on September 16, 2020. Subsequent to year end, on November 27, 2020, the Company entered into an agreement with The Toronto-Dominion Bank to obtain a short-term bank operating line of credit. The line of credit is for a maximum of the lesser of $3,000,000 and defined marginable accounts receivable minus specified liabilities. The revolving facility is repayable on demand and bears interest at TD prime plus 0.50%. The Company has provided a General Security Agreement as security for this indebtedness.

13. Deferred development funding

		September 30 2020	September 30 2019
Opening balance	$	-	-
Funding provided		2,915,098	-
Funding recognized in income		(2,020,774)	-
Ending balance	$	894,324	-

On May 29, 2019, the Company and The Boeing Company (Boeing) entered into an agreement whereby Boeing have agreed to 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. During the year ended September 30, 2020 the Company recognized $2.0 million of funding corresponding to the development of the V-22 SMART, with the remainder deferred to fund future development costs associated with the simulator.

14. Other liabilities

		September 30 2020	September 30 2019
Lease obligations (Note 4)	$	490,869	18,010
Derivative liability		-	33,725
Discounted royalty obligations (Note 15)		2,192,207	341,472
Total other current liabilities	$	2,683,076	393,207
Lease obligations (Note 4)		1,629,129	5,213
Total long-term liabilities	$	1,629,129	5,213

Lease liabilities

The following expenses were recognized in the consolidated statement of comprehensive income (loss) for the year ended September 30:

		2020
Finance costs	$	94,061
General and administration		
Expenses related to short-term and low value leases		32,613
Expenses related to variable lease payments		338,610
Total lease cost recognized	$	465,284

In Canadian dollars

15. Discounted royalty obligations

		September 30 2020	September 30 2019
Unsecured royalty obligation	$	1,812,419	1,683,877
ACOA-AIF unsecured royalty obligation		2,875,187	2,508,890
		4,687,606	4,192,767
less: current portion (included in other current liabilities)		(2,192,207)	(341,472)
Total long-term other financial liabilities	$	2,495,399	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 year ended September 30, 2020, management revalued the unsecured royalty obligation due to a change in forecasted future cash flows and as a result recognized a gain of $126,275 recognized in finance costs in the consolidated statement of comprehensive income.

(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, 2020, $531,477 (September 30, 2019 - $531,477) has been repaid. During the year, management revalued the ACOA-AIF unsecured obligation due to a change in forecasted future cash flows and as a result recognized a loss of $15,530 (2019 - $202,236 loss).

16. 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
Shares repurchased and cancelled under normal course issuer bid	(533,000)		(26,650)
Issued and outstanding at September 30, 2020	107,124,793		6,889,728

On March 26, 2018, the Company received approval from the TSX Venture Exchange for a normal course issuer bid to acquire up to an aggregate of 4,962,464 outstanding common shares. A total of 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.

On June 26, 2020, the Company received approval from the TSX Venture Exchange for a further normal course issuer bid to acquire up to an aggregate of 5,382,890 outstanding common shares. The purchases commenced on July 3, 2020 and will end on July 2, 2021, or on such earlier date as the Company may complete its purchases.

During the year ended September 30, 2020, 533,000 shares were purchased under the above normal course issuer bid for $59,476. The purchases resulted in a decrease to share capital and deficit of $26,650 and $32,826, respectively. The 77,500 shares that were repurchased in September 2020 were cancelled October 2020. The Company accounts for purchases under the constructive retirement method whereby shares are treated as cancelled upon repurchase in line with management's intention to subsequently cancel the purchased shares within a reasonable period.

In Canadian dollars

16. Share capital (continued)

(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:

	2020	2019
Common shares issued and outstanding, beginning of year	107,657,793	97,933,776
Weighted average shares purchased through normal course issuer bid	(71,937)	(163,927)
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	101,829,205	97,729,973

As at September 30, 2020, there were no dilutive instruments to include in the above earnings per share calculation.

17. Government assistance and other funding

		2020	2019
Government assistance included in income:			
National Research Council	$	462,372	524,721
Digital Media Tax Credits		558,084	1,135,483
Discounts on below-market interest rate debt (Note 12)		2,403,741	747,940
Canada Emergency Wage Subsidy		3,050,058	-
Other government assistance		60,122	131,577
Other funding:			
The Boeing Company (Note 13)		2,020,774	-
	$	8,555,151	2,539,721

18. Finance costs, net

		2020	2019
Interest on long-term debt	$	89,387	94,121
Accretion of other financial liabilities		858,177	846,339
Accretion of long-term debt		279,160	277,842
Short-term interest and bank charges		53,268	32,054
Interest on finance lease obligations		94,061	2,702
Other finance costs		23,380	41,574
Total finance cost		1,397,433	1,294,632
Revaluation of discounted royalty obligations (Note 15)		(110,745)	(246,915)
Other interest income		(11,308)	(55,504)
Total finance income		(122,053)	(302,419)
Total finance costs, net	$	1,275,380	992,212

19. Other (gains) and losses

		2020	2019
Loss on settlement of liabilities, net	$	18,963	-
Gain on disposal		-	(83,582)
Bad debt expense		877	27,608
Share based compensation		-	1,604
Foreign exchange (gain) loss		(109,859)	105,869
Total other (gains) and losses	$	(90,019)	51,499

In Canadian dollars

20. Changes in non-cash working capital

		2020	2019
Accounts receivable	$	(3,458,399)	(908,131)
Contract assets		720,503	(1,642,362)
Work in progress		345,917	573,030
Other assets		(99,875)	(49,733)
Long-term work in progress		-	(607,019)
Accounts payable and accruals		(281,294)	1,933,187
Income tax payable		530,662	-
Deferred development funding		894,324	-
Contract liabilities		1,832,316	1,205,018
	$	484,154	503,990

21. 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:

		2020	2019
Salaries and other labour costs	$	19,710,486	18,062,829
Materials, services and supplies		4,705,456	4,632,324
Travel and living		289,456	593,166
Occupancy		393,119	861,526
Professional fees		931,685	1,417,013
Other costs		459,107	396,831
Total expenses classified by nature	$	26,489,309	25,963,689

22. 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 September 30, 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).

(b) Key management personnel

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

	2020	2019
Fees, salaries and benefits to key management personnel	$ 1,054,282	$ 833,350

In Canadian dollars

22. **Related party transactions** (continued)

(c) 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 $957,836 for the rental of premises.

The Company adopted IFRS 16 (Note 4), and as a result the following related party expense are included in the consolidated statement of comprehensive income for the year ended September 30:

		2020
General and administration	$	119,588
Finance costs		41,995
Depreciation and amortization		187,500
	$	349,083

23. 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).

The following table sets out the approximate fair values of financial instruments on the statement of financial position as at September 30, 2020, 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	September 30, 2020		September 30, 2019	
	hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash	1	$ 5,499,263	$ 5,499,263	$ 150,488	$ 150,488
Accounts receivable	2	$ 11,381,482	$ 11,381,482	$ 7,905,225	$ 7,905,225
Derivative asset (liability)	2	$ 41,347	$ 41,347	$ (33,725)	$ (33,725)
Accounts payable and accruals	2	$ 3,659,365	$ 3,659,365	$ 3,937,378	$ 3,937,378
Long-term debt (including current portion)	3	$ 3,541,908	$ 3,740,792	$ 2,978,546	$ 2,902,211
Royalty obligations (including current portion)	3	$ 4,687,606	$ 4,707,395	$ 4,192,767	$ 4,371,505

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, 2020. Derivative assets and liabilities are recorded at fair value using a valuation model considering forward foreign exchange 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.

23. **Financial instruments** (continued)

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 lease obligations are at fixed interest rates. All of the Company's long-term debt is non-interest bearing. If the Company was forced to repay existing debt using alternative methods, it may be subject to higher rates. 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, 2020, the Company recorded a $109,859 gain on foreign currency (2019 - $105,869 loss). 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, 2020, the Company recorded revenue of $10,853,579 from contracts denominated in US dollars (2019 - $10,328,423). A 5% change in the US dollar exchange rate would result in a $727,032 impact on revenue recognized (2019 - $683,757).

As at September 30, 2020, the Company held receivables of $3,421,222 from contracts denominated in US dollars (September 30, 2019 - $3,528,659). A 5% change in the US dollar exchange rate would result in a $229,172 (2019 - $233,603) impact on foreign exchange gains or losses.

<u>Non-hedge designated derivative instruments</u>

As at September 30, 2020, the Company held 1 outstanding foreign exchange contract maturing October 1, 2020 to sell US$500,000 into Canadian dollars at rates averaging CA$1.41. On September 30, 2020, the Company recorded a derivative asset of $41,347 included in other current assets representing the fair value of the outstanding contract.

(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 revenue. One customer accounted for 36% of revenue (2019 – two customers - 42%) and six customers accounted for 81% of the Company’s trade receivables at September 30, 2020 (September 30, 2019 – two customers - 62%).

An expected credit loss is established based a provision matrix that takes into account historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The expected credit loss at September 30, 2020, was $235,317 (September 30, 2019 - $258,483). At September 30, 2020, the Company’s trade accounts receivable included amounts over 90 days old totaling $238,278 (September 30, 2019 - $921,404) which were not considered to be impaired.

In Canadian dollars

23. Financial instruments (continued)

(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	$	3,659,365	-	-
Obligations under lease liabilities		945,406	1,666,849	-
Long-term debt		450,000	2,519,352	5,791,244
Other contractual obligations		171,473	273,767	-
	$	5,226,244	4,459,968	5,791,244

In addition to the above, the Company has royalty obligations discussed in Note 15. 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.

24. 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, discounted royalty obligations, 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 TD demand operating line of credit facility (Note 12(g)). There were no changes in the Company's approach to capital management during the year ended September 30, 2020. The Company is not subject to any externally imposed capital requirements.

25. Segment reporting

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

The Bluedrop Training & 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 & Simulation provides a full suite of products and services including 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.

The 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 including designing the training requirements, building custom content and 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.

In Canadian dollars

25. **Segment reporting** (continued)

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:

		2020			
		Bluedrop Learning Networks	**Bluedrop Training & Simulation**	**Corporate and Other**	**Total**
Revenue					
Courseware development services	$	1,470,109	5,099,563	-	6,569,672
In-service support		-	12,552,552	-	12,552,552
Software licensing and subscriptions		4,398,917	626,882	-	5,025,799
Simulation products		-	1,284,098	-	1,284,098
		5,869,026	19,563,095	-	25,432,121
Direct costs		1,558,432	10,724,040	-	12,282,472
Gross profit		4,310,594	8,839,055	-	13,149,649
Expenses and other income					
Sales and marketing		1,263,635	992,434	1,290	2,257,359
General and administration		1,530,036	2,198,812	2,094,152	5,823,000
Management fee		493,728	1,637,861	(2,131,589)	-
Research and development costs		2,536,624	3,589,854	-	6,126,478
Finance costs, net		-	-	1,275,380	1,275,380
Depreciation and amortization		305,862	824,818	137,181	1,267,861
Government assistance and other funding		(898,710)	(6,166,195)	(1,490,246)	(8,555,151)
Other (gains) and losses		21,370	(54,523)	(56,866)	(90,019)
		5,252,545	3,023,061	(170,698)	8,104,908
(Loss) earnings before income taxes	$	(941,951)	5,815,994	170,698	5,044,741

		2019			
		Bluedrop Learning Networks	**Bluedrop Training & 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 and other income					
Sales and marketing		1,372,905	973,343	3,610	2,349,858
General and administration		506,567	537,254	4,913,919	5,957,740
Management fee		1,235,732	3,341,053	(4,576,785)	-
Research and development costs		3,078,470	2,394,872	-	5,473,342
Finance costs, net		-	-	992,212	992,212
Depreciation and amortization		194,657	428,679	94,575	717,911
Government assistance and other funding		(1,221,849)	(569,932)	(747,940)	(2,539,721)
Other (gains) and losses		(30,553)	(3,407)	85,459	51,499
		5,135,929	7,101,862	765,050	13,002,841
(Loss) earnings before income taxes	$	(1,782,482)	379,425	(765,050)	(2,168,107)

In Canadian dollars

25. Segment reporting (continued)

		Bluedrop Learning Networks	Bluedrop Training & Simulation	Corporate and Other	Total
Total assets as at September 30, 2020	$	7,897,427	15,529,824	2,299,347	25,726,598
Total liabilities as at September 30, 2020	$	8,930,113	5,700,729	8,158,816	22,789,658
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

Revenue by geographic location

The revenue information in the following table is determined is based on the location of the customers for the year ended September 30:

		2020	2019
Canada	$	23,640,023	20,938,601
United States		804,221	1,854,347
Other		987,877	224,535
	$	25,432,121	23,017,483

26. Comparative figures

Certain comparative figures have been reclassified to conform with the September 30, 2020 financial statement presentation. Specifically, the prior period segment note has been reclassified to conform with the September 30, 2020 presentation.

27. Subsequent Event

(a) Ocean Supercluster

On November 13, 2020, the Company signed a Technology Leadership Project Agreement as part of the Canadian Ocean Supercluster's Accelerated Ocean Solutions Project to develop its innovative Hoist Mission Training System (HMTS) for a full crew Search and Rescue (SAR) helicopter mission simulation over marine environment. The Ocean Supercluster will provide $1.0 million in funding for the project. No funding has been received or recognized as at September 30, 2020.

(b) Operating line of credit

On November 27, 2020, the Company entered into an agreement with The Toronto-Dominion Bank to obtain a short-term bank operating line of credit. The line of credit is for a maximum of the lesser of $3,000,000 and defined marginable accounts receivable minus specified liabilities. The revolving facility is repayable on demand and bears interest at TD prime plus 0.50%. The Company has provided a General Security Agreement as security for this indebtedness.

(c) Normal course issuer bid

Subsequent to year end, as at January 25, 2020, 437,500 shares were purchased under the above normal course issuer bid for $59,355.

(d) Strategic Innovation Fund - non-interest bearing

Subsequent to the statement of financial position date, the Company made an additional draw against the $7.6 million repayable investment under the Strategic Innovation Fund Program (Note 12). Proceeds of the draw totalled $496,325 and the difference between the proceeds received and the fair value is recognized as government assistance.