

BPLI Holdings Inc.

Condensed Consolidated Interim Financial Statements
(unaudited)

Three months ended December 31, 2020

Notice of No Auditor Review of Interim Financial Statements

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

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

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

In Canadian dollars

ASSETS

Current assets

Cash	\$	7,311,531	5,499,263
Accounts receivable (Note 4)		8,536,225	11,381,482
Contract assets		1,208,052	968,104
Work in progress		299,320	295,091
Other current assets (Note 5)		623,964	434,416

17,979,092 18,578,356

Deferred tax assets

1,375,061 1,422,527

Goodwill and other intangible assets (Note 6)

2,549,131 2,607,131

Property and equipment (Note 7)

1,242,604 808,587

Right-of-use assets (Note 8)

1,942,711 2,069,868

Other long-term assets (Note 5)

63,281 240,129

\$ 25,151,880 25,726,598

LIABILITIES AND EQUITY

Current liabilities

Bank indebtedness (Note 9)	\$	5,000	-
Accounts payable and accruals		3,767,590	3,659,365
Income tax payable		637,409	530,662
Deferred development funding (Note 10)		690,386	894,324
Contract liabilities		6,516,690	6,795,850
Current portion of long-term debt (Note 9)		443,034	284,606
Other current liabilities (Note 11)		2,661,939	2,683,076

14,722,048 14,847,883

Long-term debt (Note 9)

3,211,341 3,257,302

Discounted royalty obligations (Note 12)

2,524,365 2,495,399

Long-term contract liabilities

- 161,942

Deferred tax liabilities

271,571 398,003

Other long-term liabilities (Note 11)

1,503,318 1,629,129

22,232,643 22,789,658

Equity

Share capital (Note 13)		6,867,903	6,889,728
Contributed surplus		1,305,008	1,305,008
Deficit		(5,253,674)	(5,257,796)

2,919,237 2,936,940

\$ 25,151,880 25,726,598

Approved on Behalf of the Board

Subsequent events (Note 22)

Derrick H. Rowe
DirectorEmad Rizkalla
Director

BPLI Holdings Inc.

Consolidated Statements of Comprehensive Income

Three months ended December 31In Canadian dollars

	2020	2019
Revenue		
Courseware development services	\$ 1,729,384	1,747,083
In-service support	3,346,285	2,726,281
Software licensing and subscriptions	1,633,360	1,154,355
Simulation products	241,487	514,482
	6,950,516	6,142,201
Direct costs	3,297,137	2,938,961
Gross profit	3,653,379	3,203,240
Expenses and other income		
Sales and marketing	562,758	493,835
General and administration	1,661,282	1,275,938
Research and development costs	2,103,817	1,272,245
Finance costs, net (Note 15)	380,447	347,505
Depreciation and amortization (Note 6, 7, and 8)	312,859	334,215
Government assistance and other funding (Note 14)	(1,589,624)	(1,958,112)
Other (gains) and losses (Note 16)	152,537	80,773
	3,584,076	1,846,399
Profit before income taxes	69,303	1,356,841
Income tax expense (recovery)		
Current	106,747	205,365
Deferred	(78,966)	368,439
	27,781	573,804
Net profit and comprehensive income	\$ 41,522	783,037
Net profit per share		
Basic	\$ 0.00	0.01
Diluted	\$ 0.00	0.01
Weighted average number of shares outstanding (Note 13)		
Basic	101,054,395	101,901,142
Diluted	101,054,395	101,901,142

BPLI Holdings Inc.

Consolidated Statements of Changes in Equity

Three months ended December 31

In Canadian dollars

	Ordinary Common Shares	Share Capital	Contributed surplus	Deficit	Total
October 1, 2019	107,657,793	\$ 6,916,378	\$ 1,305,008	\$ (8,217,696)	\$ 3,690
Net profit and comprehensive income	-	-	-	783,037	783,037
December 31, 2019	107,657,793	6,916,378	1,305,008	(7,434,659)	786,727
Repurchase of shares under normal course issuer bid (Note 13)	(533,000)	(26,650)	-	(32,826)	(59,476)
Net profit and comprehensive income	-	-	-	2,209,689	2,209,689
September 30, 2020	107,124,793	\$ 6,889,728	\$ 1,305,008	\$ (5,257,796)	\$ 2,936,940
Repurchase of shares under normal course issuer bid (Note 13)	(436,500)	(21,825)	-	(37,400)	(59,225)
Net profit and comprehensive income	-	-	-	41,522	41,522
December 31, 2020	106,688,293	6,867,903	1,305,008	(5,253,674)	2,919,237

BPLI Holdings Inc.

Consolidated Statements of Cash Flows

Three months ended December 31

2020

2019

In Canadian dollars

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

Net income for the period	\$	41,522	783,037
Items not affecting cash:			
Depreciation and amortization		312,859	334,215
Non-cash government assistance		-	(475,080)
Finance costs		380,447	347,505
Deferred taxes		(78,966)	368,439
Unrealized (gain) loss on derivative instruments		41,347	(33,725)
Gain on settlement of financial liabilities		-	(4,000)
Net foreign exchange differences		44,796	119,504
Interest paid		(13,886)	(27,136)
		728,119	1,412,759
Changes in non-cash working capital (Note 17)		2,099,873	(3,220,570)
Net change in cash from operating activities		2,827,992	(1,807,811)

Investing activities

Purchase of property and equipment		(561,719)	(70,118)
Net change in cash from investing activities		(561,719)	(70,118)

Financing activities

Advances of long-term debt		-	667,701
Repayment of lease obligations		(141,684)	(132,885)
Repayment of long-term debt		-	(262,256)
Repayment of discounted royalty obligations		(230,393)	(61,128)
Repurchase of shares under normal course issuer bid		(59,225)	-
Interest paid		-	(6,424)
Net change in cash from financing activities		(431,302)	205,008

Increase (decrease) in cash

Cash, beginning of period		1,834,971	(1,672,921)
Net foreign exchange impact on cash		5,499,263	(819,686)
		(27,703)	(44,296)
Cash, end of period	\$	7,306,531	(2,536,903)

Cash consists of:

Cash on hand and in bank	\$	7,311,531	545,437
Bank indebtedness		(5,000)	(3,082,340)
	\$	7,306,531	(2,536,903)

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020

In Canadian dollars

1. Nature of operations

BPLI Holdings Inc. (formerly Bluedrop Performance Learning Inc.) ("the Company") was continued under the Corporations Act of Newfoundland and Labrador on January 26, 2012. On March 27, 2019, the Company was discontinued under the Corporations Act of Newfoundland and Labrador and continued under the Canada Business Corporations Act. On March 10, 2020, Bluedrop Performance Learnings Inc. changed 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 Training & Simulation Inc.

Bluedrop Simulation Services Inc.

Bluedrop Learning Networks Segment

Bluedrop Learning Networks Inc.

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

2. Basis of presentation

These condensed consolidated interim financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) and in accordance with International Accounting Standard (IAS) 34 Consolidated Interim Financial Reporting using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board (IASB). These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the preparation of the Company's audited annual financial statements for the year ended September 30, 2020, except as identified in Note 3. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended September 30, 2020.

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

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

3. New and future accounting standards

(a) 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 has adopted these amendments on October 1, 2020. The amendments did not have any impact on its financial statements.

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020In Canadian dollars

3. New and future accounting standards (continued)(b) 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 Company has adopted these amendments on October 1, 2020. The amendments did not have any impact on its financial statements.

4. Accounts receivable

	December 31	September 30
	2020	2020
Trade, net	\$ 4,044,195	7,097,378
Government assistance - digital media tax credits	1,392,897	1,320,799
Government assistance - Canadian Emergency Wage Subsidy	2,570,698	2,796,857
Government assistance - other	429,209	113,385
Other	99,226	53,063
	\$ 8,536,225	11,381,482

5. Other assets

	December 31	September 30
	2020	2020
Prepaid expenses	\$ 426,023	364,944
Derivative asset	-	41,347
Cost of obtaining a contract	91,406	98,438
Share purchase loan (Note 19)	169,816	169,816
Total other assets	\$ 687,245	674,545
less: current portion	(623,964)	(434,416)
Long term other assets	\$ 63,281	240,129

6. Goodwill and other intangible assets

	Technology and other	Customer Relationships	Goodwill	Total
Cost				
October 1, 2019	\$ 2,300,857	2,905,000	1,853,131	7,058,988
September 30, 2019	\$ 2,300,857	2,905,000	1,853,131	7,058,988
December 31, 2020	\$ 2,300,857	2,905,000	1,853,131	7,058,988
Accumulated amortization and impairment losses				
October 1, 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
Amortization	-	58,000	-	58,000
December 31, 2020	\$ 2,300,857	2,209,000	-	4,509,857
Carrying values				
October 1, 2019	\$ 99,777	986,000	1,853,131	2,938,908
September 30, 2020	\$ -	754,000	1,853,131	2,607,131
December 31, 2020	\$ -	696,000	1,853,131	2,549,131

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020

In Canadian dollars

7. Property and equipment

	Computer equipment and software	Furniture fixtures and equipment	Leasehold Improvements	Total
Cost				
October 1, 2019	\$ 1,517,256	871,350	502,590	2,891,196
Transfers	(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
Additions	535,846	25,873	-	561,719
December 31, 2020	\$ 2,123,393	837,615	579,833	3,540,841
Accumulated depreciation				
October 1, 2019	\$ 955,126	801,181	230,147	1,986,454
Transfer	(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
Depreciation	91,480	3,712	32,510	127,702
December 31, 2020	\$ 1,183,296	736,640	378,301	2,298,237
Carrying values				
October 1, 2019	\$ 562,130	70,169	272,443	904,742
September 30, 2020	\$ 495,731	78,814	234,042	808,587
December 31, 2020	\$ 940,097	100,975	201,532	1,242,604

8. Right-of-use assets

	Office Lease	Computer equipment	Furniture fixtures and equipment	Total
Cost				
October 1, 2019	\$ 2,513,400	-	-	2,513,400
Transfers	-	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
December 31, 2020	\$ 2,537,470	173,013	87,735	2,798,218
Accumulated amortization				
October 1, 2019	\$ -	-	-	-
Transfers	-	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
Amortization	125,342	-	1,815	127,157
December 31, 2020	\$ 623,171	145,342	86,994	855,507
Carrying values				
October 1, 2019	\$ 2,513,400	-	-	2,513,400
September 30, 2020	\$ 2,039,641	27,671	2,556	2,069,868
December 31, 2020	\$ 1,914,299	27,671	741	1,942,711

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020In Canadian dollars

9. Long-term debt and operating facilities

	Term	December 31 2020	September 30 2020
Government assistance debt:			
Atlantic Canada Opportunities Agency - non-interest bearing	(a) 2018-2024	1,769,065	1,725,565
Strategic Innovation Fund - non-interest bearing	(b) 2025-2039	1,198,912	1,155,054
Atlantic Canada Opportunities Agency - non-interest bearing	(c) 2020-2030	686,398	661,289
		<u>3,654,375</u>	<u>3,541,908</u>
less: current portion		(443,034)	(284,606)
Total long-term debt		<u>\$ 3,211,341</u>	<u>3,257,302</u>

(a) 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 and ending June 1, 2024. 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.

(b) Strategic Innovation Fund - non-interest bearing

On May 16, 2018, the Company announced a \$7.6 million repayable investment under the Strategic Innovation Fund Program to support innovation and development of simulation capabilities. The unsecured, non-interest bearing loan is repayable in 15 annual repayments of \$735,722 commencing January 1, 2025. As at December 31, 2020 the Company has drawn \$3,534,925 of the funds (September 30, 2020 - \$3,534,925). 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.

(c) 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 December 31, 2020 the Company has drawn \$1,534,960 of the funds (September 31, 2020 - \$1,534,960). 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.

(d) 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. 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. As at December 31, 2020, the Company has drawn \$5,000 against the facility.

10. Deferred development funding

	December 31 2020	September 30 2020
Opening balance	\$ 894,324	-
Funding provided	-	2,915,098
Funding recognized in income	(203,938)	(2,020,774)
Ending balance	<u>\$ 690,386</u>	<u>894,324</u>

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. As of December 31, 2020 \$2,915,098 has been provided (September 30, 2020 - \$2,915,098).

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020In Canadian dollars

11. Other liabilities

	December 31	September 30
	2020	2020
Lease obligations	\$ 495,798	490,869
Discounted royalty obligations (Note 12)	2,166,141	2,192,207
Total other current liabilities	\$ 2,661,939	2,683,076
Lease obligations	1,503,318	1,629,129
Total long-term liabilities	\$ 1,503,318	1,629,129

Lease liabilities

The following expenses were recognized in the consolidated statement of comprehensive income for the three months ended December 31:

	Three months ended	
	2020	2019
Finance costs	\$ 20,798	25,225
General and administration		
Expenses related to variable lease payments	97,451	73,094
Expenses related to short-term and low value leases	2,378	6,772
Total lease cost recognized	\$ 120,627	105,091

12. Discounted royalty obligations

	December 31	September 30
	2020	2020
Unsecured royalty obligation	\$ 1,879,273	1,812,419
ACOA-AIF unsecured royalty obligation	2,811,233	2,875,187
	4,690,506	4,687,606
less: current portion (included in other current liabilities)	(2,166,141)	(2,192,207)
Total long-term other financial liabilities	\$ 2,524,365	2,495,399

(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.

(b) ACOA-AIF unsecured royalty obligation

The Company has recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,984,419 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and product related services resulting from the research funded. As of December 31, 2020, \$692,696 (September 30, 2020 - \$531,477) has been repaid.

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020In Canadian dollars

13. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

	Number of Shares	Share capital
Issued and outstanding at October 1, 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
Shares repurchased and cancelled under normal course issuer bid	(436,500)	(21,825)
Issued and outstanding at December 31, 2020	106,688,293	6,867,903

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.

During the three months ended December 31, 2020, 436,500 shares were purchased under the above normal course issuer bid for \$59,225. The purchases resulted in a decrease to share capital and deficit of \$21,825 and \$37,400, respectively. 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.

Subsequent to December 31, 2020, in connection with the acquisition transaction (Note 22 (a)), the Company has suspended the normal course issuer bid.

(c) Earnings (loss) per share

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

	Three months ended December 31	
	2020	2019
Common shares issued and outstanding, beginning of year	107,124,793	107,657,793
Weighted average shares purchased through normal course issuer bid	(313,747)	-
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	101,054,395	101,901,142

As at December 31, 2020, there were no dilutive instruments to include in the above earnings per share calculation.

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020In Canadian dollars

14. Government assistance and other funding

	Three months ended December 31	
	2020	2019
Government assistance included in income:		
National Research Council	\$ 162,084	202,705
Digital Media Tax Credits	72,098	160,835
Discounts on below-market interest rate debt (Note 9)	-	475,080
Canada Emergency Wage Subsidy	991,619	-
Accelerated Ocean Solutions Program	86,634	-
Other government assistance	73,251	48,593
Other funding:		
The Boeing Company (Note 10)	203,938	1,070,899
	<u>\$ 1,589,624</u>	<u>1,958,112</u>

15. Finance costs, net

	Three months ended December 31	
	2020	2019
Interest on long-term debt	\$ 25,936	19,874
Accretion of other financial liabilities	233,296	213,829
Accretion of long-term debt	86,531	61,441
Short-term interest and bank charges	13,886	27,136
Interest on lease obligations	20,798	25,225
Total finance cost	<u>\$ 380,447</u>	<u>347,505</u>

16. Other (gains) and losses

	Three months ended December 31	
	2020	2019
Gain on disposal	\$ -	(4,000)
Bad debt expense	-	(2,607)
Foreign exchange loss	152,537	87,380
Total other (gains) and losses	<u>\$ 152,537</u>	<u>80,773</u>

17. Changes in non-cash working capital

	Three months ended December 31	
	2020	2019
Accounts receivable	\$ 2,816,796	(2,851,248)
Contract assets	(239,948)	178,923
Work in progress	(4,229)	(158,365)
Other assets	(54,047)	(162,713)
Long-term work in progress	-	(162,784)
Accounts payable and accruals	119,595	(488,363)
Income tax payable	106,747	-
Deferred development funding	(203,938)	1,149,609
Contract liabilities	(441,102)	(725,629)
	<u>\$ 2,099,873</u>	<u>(3,220,570)</u>

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020In Canadian dollars

18. Expenses classified by nature

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

	Three months ended December 31	
	2020	2019
Salaries and other labour costs	\$ 5,511,267	4,320,400
Materials, services and supplies	1,487,711	1,080,377
Travel and living	9,557	150,389
Occupancy	99,829	79,866
Professional fees	383,573	229,418
Other costs	133,057	120,529
Total expenses classified by nature	\$ 7,624,994	5,980,979

19. Related party transactions

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

(a) Share purchase loans

The Company has provided share purchase loans to a director of the Company. As collateral for the non-interest bearing share purchase loans, the borrower has granted the Company a security interest in a portion of the shares purchased. The loans are repayable in full on or before December 31, 2021. As at December 31, 2020, the total amount receivable was \$169,816 (September 30, 2020 - \$169,816) and is included in other current assets on the statements of financial position (September 30, 2020 - other long-term assets). Subsequent to the financial statement date, the Company released security over the above shares.

(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.

	Three months ended December 31	
	2020	2019
Fees, salaries and benefits to key management personnel	\$ 469,697	\$ 199,050

(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 \$914,349 for the rental of premises.

The following related party lease expenses are included in the consolidated statement of comprehensive income for the three months ended December 31:

	2020		2019	
General and administration	\$	22,680		25,500
Finance costs		9,434		11,119
Depreciation and amortization		46,875		46,875
	\$	78,989		83,494

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020In Canadian dollars

20. Financial instruments

(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 three months ended December 31, 2020, the Company recorded a \$152,537 loss on foreign currency (2019 - \$87,830 loss). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the three months ended December 31, 2020, the Company recorded revenue of \$2,583,011 from contracts denominated in US dollars (2019 - \$2,877,262). As at December 31, 2020, the Company held receivables of \$1,143,783 from contracts denominated in US dollars (September 30, 2020 - \$3,421,222).

(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 31% of revenue (2019 – three customers - 55%) and four customers accounted for 58% of the Company's trade receivables at December 31, 2020 (September 30, 2020 – six customers - 81%).

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 December 31, 2020, was \$215,866 (September 30, 2020 - \$235,317). At December 31, 2020, the Company's trade accounts receivable included amounts over 90 days old totaling \$158,529 (September 30, 2020 - \$238,278) which were not considered to be impaired.

21. 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.

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020

In Canadian dollars

21. 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 an appropriate allocation of resources to those segments. Segment information for the reporting periods is as follows:

	Three months ended December 31, 2020			
	Bluedrop Learning Networks	Bluedrop Training & Simulation	Corporate and Other	Total
Revenue				
Courseware development services	\$ 216,759	1,512,625	-	1,729,384
In-service support	-	3,346,285	-	3,346,285
Software licensing and subscriptions	1,553,772	79,588	-	1,633,360
Simulation products	-	241,487	-	241,487
	<u>1,770,531</u>	<u>5,179,985</u>	<u>-</u>	<u>6,950,516</u>
Direct costs	447,374	2,849,763	-	3,297,137
Gross profit	<u>1,323,157</u>	<u>2,330,222</u>	<u>-</u>	<u>3,653,379</u>
Expenses and other income				
Sales and marketing	339,772	222,986	-	562,758
General and administration	325,537	641,527	694,218	1,661,282
Management fee	72,686	429,299	(501,985)	-
Research and development costs	590,560	1,513,257	-	2,103,817
Finance costs, net	-	-	380,447	380,447
Depreciation and amortization	53,327	252,437	7,095	312,859
Government assistance and other funding	(189,919)	(1,399,705)	-	(1,589,624)
Other (gains) and losses	2,051	133,970	16,516	152,537
	<u>1,194,014</u>	<u>1,793,771</u>	<u>596,291</u>	<u>3,584,076</u>
(Loss) earnings before income taxes	<u>\$ 129,143</u>	<u>536,451</u>	<u>(596,291)</u>	<u>69,303</u>

	Three months ended December 31, 2019			
	Bluedrop Learning Networks	Bluedrop Training & Simulation	Corporate and Other	Total
Revenue				
Courseware development services	\$ 368,547	1,378,536	-	1,747,083
In-service support	-	2,726,281	-	2,726,281
Software licensing and subscriptions	964,142	190,213	-	1,154,355
Simulation products	-	514,482	-	514,482
	<u>1,332,689</u>	<u>4,809,512</u>	<u>-</u>	<u>6,142,201</u>
Direct costs	414,301	2,524,660	-	2,938,961
Gross profit	<u>918,388</u>	<u>2,284,852</u>	<u>-</u>	<u>3,203,240</u>
Expenses and other income				
Sales and marketing	274,801	219,034	-	493,835
General and administration	354,497	434,381	487,060	1,275,938
Management fee	143,614	471,714	(615,328)	-
Research and development costs	633,026	639,219	-	1,272,245
Finance costs, net	-	-	347,505	347,505
Depreciation and amortization	92,517	169,646	72,052	334,215
Government assistance and other funding	(176,113)	(1,306,919)	(475,080)	(1,958,112)
Other (gains) and losses	(13,334)	88,112	5,995	80,773
	<u>1,309,008</u>	<u>715,187</u>	<u>(177,796)</u>	<u>1,846,399</u>
(Loss) earnings before income taxes	<u>\$ (390,620)</u>	<u>1,569,665</u>	<u>177,796</u>	<u>1,356,841</u>

BPLI Holdings Inc.

Notes to the Condensed Consolidated Financial Statements

Three months ended December 31, 2020In Canadian dollars

21. Segment reporting (continued)

	Bluedrop Learning Networks	Bluedrop Training & Simulation	Corporate and Other	Total
Total assets as at December 31, 2020	\$ 5,890,199	16,937,377	2,324,304	25,151,880
Total liabilities as at December 31, 2020	\$ 7,223,284	6,398,144	8,611,215	22,232,643
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

Revenue by geographic location

The revenue information in the following table is determined is based on the location of the customers for the three months ended December 31:

	2020	2019
Canada	\$ 6,575,099	5,714,636
United States	329,830	85,163
Other	45,587	342,402
	\$ 6,950,516	6,142,201

22. Subsequent Event

(a) Acquisition

On February 2, 2021, the Company announced that it had entered into a definitive agreement with Rizbollo Holdings Limited (Rizbollo) and Name 3 Capital Inc. (Name 3), related party entities. Pursuant to the Arrangement Agreement, among other things, 12491125 Canada Inc., a company owned by Rizbollo and Name 3 have agreed to acquire all of the issued and outstanding common shares of BPLI Holdings Inc. not already owned or controlled by Rizbollo and Name 3 for \$0.23 per share in an all-cash transaction. The transaction is expected to close by mid-April 2021. For the three months ended December 31, 2020, the Company incurred \$237,705 in expenses related to the transactions and is included under general and administration on the consolidated statement of comprehensive income.

(b) Normal course issuer bid

Subsequent to the statement of financial position date, as at February 25, 2021, 21,000 shares were purchased under the normal course issuer bid for \$3,130. In connection with the above transaction, the Company has suspended the normal course issuer bid.

(c) 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 9). Proceeds of the draw totalled \$496,325 and the difference between the proceeds received and the fair value is recognized as government assistance.