

## **Bluedrop Performance Learning Inc.**

Condensed Consolidated Interim Financial Statements  
(Unaudited)

**Three months ended December 31, 2015**

### **Notice of No Auditor Review of Interim Financial Statements**

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

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

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**Bluedrop Performance Learning Inc.**

Consolidated Statements of Financial Position

Unaudited

**December 31****September 30****2015****2015**

In Canadian dollars

**ASSETS**

## Current assets

Cash and cash equivalents	\$	2,168,167	3,196,631
Accounts receivable (Note 4)		6,820,308	4,613,225
Unbilled revenue		1,312,588	1,461,286
Prepaid expenses		477,201	499,165

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		10,778,264	9,770,307
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## Other long term assets

169,816

## Deferred tax assets

4,370,869

## Goodwill and other intangible assets (Note 5)

5,503,841

## Property and equipment (Note 6)

667,658

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	\$	21,490,448	21,117,340
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**LIABILITIES AND EQUITY**

## Current liabilities

Accounts payable and accruals	\$	2,606,655	2,995,067
Deferred revenue		5,549,203	4,342,926
Deferred development funding (Note 7)		1,388,089	1,806,020
Current portion of long term debt (Note 8)		2,028,814	1,426,660
Other current liabilities		322,405	347,549

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		11,895,166	10,918,222
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## Long term debt (Note 8)

4,773,131

## Other financial liabilities (Note 9)

2,933,829

## Deferred revenue

715,508

## Deferred tax liabilities

554,481

## Other long term liabilities

7,173

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		20,879,288	20,768,907
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## Equity

Share capital (Note 10)		5,053,021	5,053,021
Reserves		1,572,952	1,543,495
Deficit		(6,014,813)	(6,248,083)

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		611,160	348,433
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	\$	21,490,448	21,117,340
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Approved on Behalf of the Board

Derrick H. Rowe  
DirectorEmad Rizkalla  
Director

**Bluedrop Performance Learning Inc.**Consolidated Statements of Comprehensive Income  
Unaudited**Three months ended December 31****2015****2014**

In Canadian dollars

(As Restated)  
(Note 3)**Revenue**

Services revenue	\$	4,799,667	3,372,981
Product sales		951,720	976,365
		5,751,387	4,349,346
Direct costs		2,704,627	2,715,348

**Gross profit**

3,046,760 1,633,998

**Expenses**

Sales and marketing		496,361	426,054
General and administration		1,175,197	936,023
Research and development costs		708,961	-
Government assistance and other funding (Note 11)		(693,494)	(190,845)
Share-based compensation (Note 10)		29,457	70,423
Finance costs (Note 12)		430,646	409,059
Depreciation and amortization		260,638	214,145
Other (gains) and losses		-	(471,922)

2,407,766 1,392,937

**Profit before income taxes**

638,994 241,061

## Income tax expense

Current		-	-
Deferred		405,724	136,899

405,724 136,899

**Net profit and comprehensive income**

\$ 233,270 104,162

**Net profit per share** (Note 10)

Basic		0.0024	0.0011
Diluted		0.0024	0.0011

**Weighted average number of  
shares outstanding** (Note 10)

Basic		98,986,609	98,986,609
Diluted		99,106,051	98,986,609

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**Bluedrop Performance Learning Inc.**

Consolidated Statements of Changes in Equity

Unaudited

**Three months ended December 31**In Canadian dollars

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	Ordinary Common Shares	Share Capital	Share Option Reserve	Convertible Notes	Retained Earnings (Deficit) (As Restated) (Note 3)	Total
<b>October 1, 2014</b>	98,986,609	\$ 5,053,021	1,120,884	201,466	(6,561,845)	(186,474)
Share-based compensation	-	-	70,423	-	-	70,423
Net profit and comprehensive income	-	-	-	-	104,162	104,162
<b>December 31, 2014</b>	98,986,609	\$ 5,053,021	1,191,307	201,466	(6,457,683)	(11,889)
Share-based compensation	-	-	124,420	-	-	124,420
Issue of convertible note, net of tax	-	-	-	26,302	-	26,302
Net profit and comprehensive income	-	-	-	-	209,600	209,600
<b>September 30, 2015</b>	98,986,609	\$ 5,053,021	1,315,727	227,768	(6,248,083)	348,433
Share-based compensation	-	-	29,457	-	-	29,457
Net profit and comprehensive income	-	-	-	-	233,270	233,270
<b>December 31, 2015</b>	98,986,609	\$ 5,053,021	1,345,184	227,768	(6,014,813)	611,160

## Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Three months ended December 31

2015

2014

In Canadian dollars

(As Restated)  
(Note 3)

### Increase (decrease) in cash and cash equivalents

#### Operating activities

Net profit for the period	\$	233,270	104,162
Items not affecting cash:			
Share-based compensation		29,457	70,423
Depreciation and amortization		260,638	214,145
Non-cash government assistance		-	(57,074)
Gain on settlement of long term debt		-	(470,422)
Finance costs		430,646	409,059
Deferred taxes		405,724	136,899
Unrealized gain on derivative instruments		(19,535)	-
Interest paid		(4,936)	(11,562)
		1,335,264	395,630
Changes in non-cash working capital (Note 13)		(1,408,452)	841,836
<b>Net change in cash from operating activities</b>		<b>(73,188)</b>	<b>1,237,466</b>

#### Investing activities

Purchase of property and equipment, net of government assistance		(48,840)	(19,485)
Purchase of intangible assets, net of government assistance		-	(155,251)
		(48,840)	(174,736)
Changes in non-cash working capital (Note 13)		(417,931)	(121,704)
<b>Net change in cash from investing activities</b>		<b>(466,771)</b>	<b>(296,440)</b>

#### Financing activities

Repayment of obligations under finance leases		(9,994)	(20,354)
Repayment of long term debt		(123,230)	(1,254,481)
Advances of other financial liabilities		-	102,000
Repayment of other financial liabilities		(58,336)	(41,545)
Decrease in other long term liabilities		-	(28,167)
Interest paid		(296,945)	(128,663)
<b>Net change in cash from financing activities</b>		<b>(488,505)</b>	<b>(1,371,210)</b>

#### Decrease in cash and cash equivalents

		(1,028,464)	(430,184)
Cash and cash equivalents (Bank indebtedness), beginning of period		3,196,631	(1,067,600)
<b>Cash and cash equivalents (bank indebtedness), end of period</b>	\$	<b>2,168,167</b>	<b>(1,497,784)</b>

#### Cash and cash equivalents (bank indebtedness) consists of:

Cash on hand and in bank	\$	2,168,167	11,463
Bank indebtedness		-	(1,509,247)
	\$	2,168,167	(1,497,784)

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## **Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Three months ended December 31, 2015**

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In Canadian dollars

### **1. Nature of operations**

Bluedrop Performance Learning Inc. ("Bluedrop" or "the Company") was continued under the Corporations Act of Newfoundland and Labrador on January 26, 2012. These consolidated financial statements comprise the Company and its 100% owned operating subsidiaries as follows:

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 resource augmentation solutions to improve the safety, productivity and efficiency of military and civil aviation personnel through its Training and Simulation operations. The Company is domiciled in Canada and its registered office is located at 18 Prescott Street, St. John's, Newfoundland and Labrador, A1C 3S4.

These financial statements were approved and authorized for issuance by the Board of Directors on February 29, 2016.

### **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, 2015. 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, 2015.

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.

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Three months ended December 31, 2015**In Canadian dollars

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**3. Restatement - Change in Accounting Policy**

During the fiscal year ended September 30, 2015, the Company performed a review of its accounting policy related to the liabilities under the Atlantic Canada Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF). As a result of the review, management has selected to change the accounting policy related to the liability. Previously, the Company accounted for the funding received as government assistance in accordance with *IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance*. The Company recorded a related liability which was accounted for in accordance with *IAS 37 - Provisions*. Under this policy, the liability was recorded as a provision and revalued for changes in the amount and timing of cash flows and changes in the discount rate. Changes in the provision were offset against government assistance.

Management has selected to account for this liability in accordance with *IAS 39 - Financial Liabilities: Recognition and Measurement*. Under IAS 39, the liability is recorded as a financial liability using the effective interest method. The difference between the initial carrying value of the loan determined in accordance with IAS 39 and the proceeds received is recorded as government assistance in accordance with IAS 20. In accordance with IAS 39, the liability is revalued for changes in the timing and amount of cash flows, with the adjustment included in finance charges.

Management believes that the change in policy will result in greater consistency with similar transactions and will provide more reliable and relevant information about the effects of such transactions, the entity's financial performance and financial position, and related cash flows. The impact of the change in accounting policy has been accounted for on a retroactive basis as follows:

	<b>December 31</b>		<b>December 31</b>
	<b>2014</b>		<b>2014</b>
	<b>Previously</b>		<b>Restated</b>
	<b>Reported</b>	<b>Adjustment</b>	
<b>Statement of financial position</b>			
Deferred tax assets	\$ 4,702,005	78,183	4,780,188
Goodwill and other intangible assets	5,251,852	(87,798)	5,164,054
Other financial liabilities	934,503	1,414,751	2,349,254
Provisions	1,223,327	(1,223,327)	-
Deficit	(6,256,644)	(201,039)	(6,457,683)
<b>Statement of comprehensive income</b>			
Government assistance	(196,915)	6,070	(190,845)
Finance costs	410,541	(1,482)	409,059
Depreciation and amortization	221,451	(7,306)	214,145
Income tax recovery (Deferred)	136,138	761	136,899
Net earnings per share	102,205	1,957	104,162
Net earnings per share - basic and diluted	0.0010	0.0001	0.0011

**4. Accounts receivable**

	<b>December 31</b>	<b>September 30</b>
	<b>2015</b>	<b>2015</b>
Trade	\$ 5,224,821	3,286,298
Government assistance	1,510,665	1,301,514
Other	84,822	25,413
	<b>\$ 6,820,308</b>	<b>4,613,225</b>

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## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2015

In Canadian dollars

### 5. Goodwill and other intangible assets

	Courseware		Technology	Customer		Total
	Licences	and other		Relationships	Goodwill	
<b>Cost</b>						
October 1, 2014	\$ 265,500	61,815	1,964,389	2,905,000	1,853,131	7,049,835
Additions	-	-	1,117,489	-	-	1,117,489
Government assistance	-	-	60,225	-	-	60,225
September 30, 2015	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
December 31, 2015	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
<b>Accumulated amortization and impairment losses</b>						
October 1, 2014	\$ 265,500	61,815	1,142,203	396,857	-	1,866,375
Amortization	-	-	338,661	315,572	-	654,233
September 30, 2015	\$ 265,500	61,815	1,480,864	712,429	-	2,520,608
Amortization	-	-	124,207	78,893	-	203,100
December 31, 2015	\$ 265,500	61,815	1,605,071	791,322	-	2,723,708
<b>Carrying values</b>						
October 1, 2014	\$ -	-	822,186	2,508,143	1,853,131	5,183,460
September 30, 2015	\$ -	-	1,661,239	2,192,571	1,853,131	5,706,941
December 31, 2015	\$ -	-	1,537,032	2,113,678	1,853,131	5,503,841

During the three months ended December 31, 2015, the Company commenced the commercialization phase of the *Bluedrop360™* Platform. No development expenditures have been included in Intangible assets during the three months ended December 31, 2015.

### 6. Property and equipment

	Computer		Furniture		Leasehold		Total
	equipment	and software	fixtures and	equipment	Vehicles	Improvements	
<b>Cost</b>							
October 1, 2014	\$ 490,968	869,752	46,967	204,201	-	-	1,611,888
Additions	50,330	7,178	-	-	-	-	57,508
Disposals	-	(94,054)	-	(10,245)	-	-	(104,299)
September 30, 2015	\$ 541,298	782,876	46,967	193,956	-	-	1,565,097
Additions	48,840	-	-	-	-	-	48,840
December 31, 2015	\$ 590,138	782,876	46,967	193,956	-	-	1,613,937
<b>Accumulated depreciation</b>							
October 1, 2014	\$ 233,452	278,362	45,473	138,734	-	-	696,021
Depreciation	122,454	103,237	1,494	16,089	-	-	243,274
Disposals	-	(40,309)	-	(10,245)	-	-	(50,554)
September 30, 2014	\$ 355,906	341,290	46,967	144,578	-	-	888,741
Depreciation	28,575	24,941	-	4,022	-	-	57,538
December 31, 2015	\$ 384,481	366,231	46,967	148,600	-	-	946,279
<b>Carrying values</b>							
October 1, 2014	\$ 257,516	591,390	1,494	65,467	-	-	915,867
September 30, 2015	\$ 185,392	441,586	-	49,378	-	-	676,356
December 31, 2015	\$ 205,657	416,645	-	45,356	-	-	667,658

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Three months ended December 31, 2015**In Canadian dollars

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**7. Deferred development funding**

	<b>December 31</b>	<b>September 30</b>
	<b>2015</b>	<b>2015</b>
Opening balance	\$ 1,806,020	-
Funding received	-	1,932,602
Development costs incurred	(417,931)	(126,582)
Ending balance	\$ 1,388,089	1,806,020

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On July 8, 2015, Bluedrop and The Boeing Company (Boeing) entered into an agreement whereby Boeing would contribute US\$2.29 million to the Company to support the development of the next generation rear crew trainer for the CH-47 Chinook helicopter. During the three months ended December 31, 2015 the Company expensed \$417,931 of costs related to the development of the trainer. The funding related to these costs was recognized in the period with the remainder deferred to fund future development costs associated with the simulator.

**8. Long term debt**

	<b>December 31</b>	<b>September 30</b>
	<b>2015</b>	<b>2015</b>
Unsecured convertible term notes - 14%	2013-2017 \$ 3,486,865	3,590,031
Unsecured term loan - 16%	2015-2016 600,000	600,000
Government assistance debt:		
Province of Newfoundland and Labrador - 4.75%	2016-2019 486,939	474,942
Atlantic Canada Opportunities Agency - non-interest bearing	2012-2017 159,945	180,600
Government of Nova Scotia - 5%	2013-2021 1,107,983	1,145,761
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018 225,108	242,682
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019 283,692	295,567
Atlantic Canada Opportunities Agency - non-interest bearing	2016-2017 451,413	431,694
	6,801,945	6,961,277
less: current portion	(2,028,814)	(1,426,660)
Total long term debt	\$ 4,773,131	5,534,617

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(a) Unsecured convertible term note - 14%

On December 11, 2015 the company entered into an agreement to amend the maturity date of \$3,000,000 of the unsecured convertible term note from December 30, 2016 to December 30, 2017.

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Three months ended December 31, 2015**In Canadian dollars

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**9. Other financial liabilities**

	<b>December 31</b>	<b>September 30</b>
	<b>2015</b>	<b>2015</b>
Unsecured royalty obligation	\$ 1,140,201	1,103,733
ACOA-AIF unsecured royalty obligation	2,090,991	2,020,928
	3,231,192	3,124,661
less: current portion	(297,363)	(297,363)
Total long term other financial liabilities	\$ 2,933,829	2,827,298

## (a) Unsecured royalty obligation

During the year ended September 30, 2014, the Company received \$1,000,000 of financing in the form of an unsecured royalty arrangement. The agreement requires Bluedrop to pay a royalty of 1.0% of revenues in exchange for the principal provided.

On March 31, 2015, the Company extended the availability of funding under the unsecured royalty obligation. Under the amended arrangement Bluedrop has the option to draw an additional \$650,000 of funding in exchange of an increased royalty of 0.65% of revenue, subject to certain adjustments. The extended balance was undrawn at December 31, 2015. The option expired on December 31, 2015.

## (b) ACOA-AIF unsecured Royalty obligation

To December 31, 2015 the Company had 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 services resulting from the research funded.

**10. Share capital**

## (a) Authorized

Unlimited common shares without par value

## (b) Common shares issued and outstanding

	<b>Number of</b>	<b>Share</b>
	<b>Shares</b>	<b>capital</b>
Issued and outstanding at October 1, 2014	98,986,609	\$ 5,053,021
Issued and outstanding at September 30, 2015 and December 31, 2015	98,986,609	\$ 5,053,021

## (c) Share options (2010 Stock Option Plan)

	<b>Number of</b>	<b>Exercise price</b>
	<b>options</b>	<b>per share</b>
Outstanding at October 1, 2014	262,375	\$0.40
Expired	(25,000)	\$0.40
Outstanding and exercisable at September 30, 2015 and December 31, 2015	237,375	\$0.40

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Three months ended December 31, 2015**In Canadian dollars

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**10. Share capital** (continued)

(d) Share options (2011 Stock Option Plan)	Number of options	Exercise price per share
Outstanding at October 1, 2014	13,654,191	\$0.18
Granted	3,508,747	\$0.07
Forfeitures	(285,608)	\$0.13
Expired	(554,314)	\$0.23
Outstanding at September 30, 2015	16,323,016	\$0.15
Expired	(51,750)	\$0.26
Outstanding at December 31, 2015	16,271,266	\$0.15
Exercisable at December 31, 2015	7,813,764	\$0.20

Pursuant to the 2011 Stock Option Plan, the Company has reserved a maximum of 16,827,718 of common shares of the Company for issuance on the exercise of share options. These options expire five years after the date of grant and vest over a three year period as follows: 10% at time of grant; 20% on the first anniversary; 20% on the second anniversary and 50% on the third anniversary.

The Company recorded \$29,457 of share-based compensation expense in the three months ended December 31, 2015 relating to the 2011 Stock Option Plan (December 31, 2014 - \$70,423). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options granted in the year ended September 30, 2015:

Risk free interest rate	0.66%
Expected dividend yield	0%
Share price volatility	37%
Expected life	3.6 years
Average fair value of options granted	\$0.0206

## (e) Employee share purchase plan

The Company has a employee share purchase plan which permits employees to subscribe to common shares of the Company through payroll deductions. The Company may provide financial assistance with respect to the plan by way of loan, guarantee or otherwise. The Company has reserved a maximum of 2,969,597 common shares under the employee share purchase plan. As at December 31, 2015 no shares were outstanding under the plan.

## (f) Earnings per share

Both the basic and diluted earnings per share have been calculated using the profit (loss) attributable to shareholders as the numerator with no adjustments required. The reconciliation of the weighted average number of shares for the purposes of basic and diluted earnings per share is as follows:

	2015	2014
Common shares issued and outstanding at October 1	98,986,609	98,986,609
Weighted average number of shares used in basic earnings per share	98,986,609	98,986,609
Effect of share options on issue	119,442	-
Weighted average number of shares used in diluted earnings per share	99,106,051	98,986,609

At December 31, 2015, 15,141,298 share options (2014 - 13,368,986) and 24,166,667 shares on convertible notes (2014 - 20,000,000) were excluded from the calculation of diluted weighted average number of shares calculation because their effect would be anti-dilutive.

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Three months ended December 31, 2015**In Canadian dollars

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**11. Government assistance and other funding**

	<b>2015</b>	<b>2014</b>
Government assistance included in income:		
National Research Council - Industrial Research Assistance Program	\$ 93,026	22,118
Invest New Brunswick	15,000	15,739
Nova Scotia Digital Media Tax Credits	167,537	95,914
Discounts on below-market interest rate financial liabilities	-	57,074
Other indirect government assistance included in income:		
The Boeing Company - Funding under the Government of Canada's IRB Policy	417,931	-
	<u>\$ 693,494</u>	<u>190,845</u>
Government assistance included in intangible assets:		
National Research Council - Industrial Research Assistance Program	\$ -	49,704
Discounts on below-market interest rate financial liabilities	-	28,082
	<u>\$ -</u>	<u>77,786</u>

**12. Finance costs**

	<b>2015</b>	<b>2014</b>
Interest on long term debt	\$ 174,424	160,992
Interest on finance lease obligations	538	968
Short term interest and bank charges	1,352	10,979
Accretion of long term debt	85,880	96,357
Accretion of other financial liabilities	164,867	139,180
Other financing costs	3,585	583
Total finance costs	<u>\$ 430,646</u>	<u>409,059</u>

**13. Changes in non-cash working capital**

	<b>2015</b>	<b>2014</b>
Accounts receivable	\$ (2,207,083)	883,405
Unbilled revenue	148,698	430,506
Prepaid expenses	21,964	22,160
Accounts payable and accruals	(388,412)	(495,221)
Deferred revenue	1,016,381	(120,718)
Deferred development funding	(417,931)	-
	<u>\$ (1,826,383)</u>	<u>720,132</u>
Changes in non-cash working capital related to:		
Operating activities	(1,408,452)	841,836
Investing activities	(417,931)	(121,704)
	<u>\$ (1,826,383)</u>	<u>720,132</u>

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

**Three months ended December 31, 2015**In Canadian dollars

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**14. 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:

	<b>2015</b>	<b>2014</b>
Salaries and other labour costs	\$ 3,655,994	2,981,313
Materials, services and supplies	743,519	547,322
Travel and living	123,683	91,543
Occupancy	195,290	193,612
Professional fees	196,455	151,095
Other costs	170,205	112,540
<b>Total expenses classified by nature</b>	<b>\$ 5,085,146</b>	<b>4,077,425</b>

**15. 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 dates ranging between June 27, 2017 and January 31, 2018. As at December 31, 2015 the amount receivable was \$169,816 (September 30, 2015 - \$169,816).

**(b) Unsecured term loan**

During the year ended September 30, 2015, the Company received financing of \$600,000 in the form of an 18 month unsecured term loan from an entity controlled by the Company's beneficial controlling shareholder and director. The term loan bears interest, payable monthly, at 16% per annum and is subordinated to existing senior credit and other term loan facilities (See Note 8). During the three months ended December 31, 2015 the Company incurred \$24,197 of finance charges associated with the term loan.

**(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. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter. During the three months ended December 31, 2015 the Company incurred \$70,560 (2014 - \$65,520) associated with the lease.

**(d) Key management personnel**

Key management personnel include the President and Chief Executive Officer, the Chief Financial Officer and the directors of the Company. The Executive Chairman's fees are paid to a corporation under his control.

	<b>2015</b>	<b>2014</b>
Fees, salaries and benefits to key management personnel	\$ 298,525	155,100
Share based compensation to key management personnel	15,633	44,577

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2015

In Canadian dollars

### 16. Segment reporting

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

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

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

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

	Three months ended December 31, 2015			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,160,438	4,590,949	-	5,751,387
Direct costs	529,967	2,174,660	-	2,704,627
<b>Gross profit</b>	630,471	2,416,289	-	3,046,760
<b>Expenses</b>				
Sales and marketing	373,692	121,572	1,097	496,361
General and administration	124,535	292,676	75,986	1,175,197
Research and development costs	291,030	417,931	-	708,961
Government assistance and other funding	(108,026)	(585,468)	-	(693,494)
Share-based compensation	4,848	5,274	19,335	29,457
Finance costs	-	-	430,646	430,646
Depreciation and amortization	154,520	102,350	3,768	260,638
	840,599	354,335	1,212,832	2,407,766
<b>(Loss) earnings before income taxes</b>	\$ (210,128)	2,061,954	(1,212,832)	638,994

	Three months ended December 31, 2014			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 840,055	3,509,291	-	4,349,346
Direct costs	426,081	2,289,267	-	2,715,348
<b>Gross profit</b>	413,974	1,220,024	-	1,633,998
<b>Expenses</b>				
Sales and marketing	246,670	159,702	19,682	426,054
General and administration	99,611	280,629	555,783	936,023
Government assistance and other funding	(94,931)	(95,914)	-	(190,845)
Share based compensation	12,662	4,811	52,950	70,423
Finance costs	-	-	409,059	409,059
Depreciation and amortization	100,259	109,212	4,674	214,145
Other (gains) and losses	-	-	(471,922)	(471,922)
	364,271	458,440	570,226	1,392,937
<b>(Loss) earnings before income taxes</b>	\$ 49,703	761,584	(570,226)	241,061