

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

Six months ended March 31, 2016

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

March 31 September 30**2016****2015**

In Canadian dollars

ASSETS

Current assets

Cash and cash equivalents	\$	3,323,326	3,196,631
Accounts receivable (Note 4)		4,767,814	4,613,225
Unbilled revenue		864,806	1,461,286
Prepaid expenses		530,950	499,165
		9,486,896	9,770,307

Other long term assets		169,816	169,816
Deferred tax assets		4,001,244	4,793,920
Goodwill and other intangible assets (Note 5)		5,300,742	5,706,941
Property and equipment (Note 6)		662,813	676,356
	\$	19,621,511	21,117,340

LIABILITIES AND EQUITY

Current liabilities

Accounts payable and accruals	\$	2,870,819	2,995,067
Deferred revenue		4,282,925	4,342,926
Deferred development funding (Note 7)		1,470,589	1,806,020
Current portion of long term debt (Note 8)		1,486,262	1,426,660
Other current liabilities		316,757	347,549
		10,427,352	10,918,222

Long term debt (Note 8)		4,536,662	5,534,617
Other financial liabilities (Note 9)		3,019,683	2,827,298
Deferred revenue		101,164	905,404
Deferred tax liabilities		537,153	571,808
Other long term liabilities		2,722	11,558
		18,624,736	20,768,907

Equity

Share capital (Note 10)		5,053,021	5,053,021
Reserves		1,602,458	1,543,495
Deficit		(5,658,704)	(6,248,083)
		996,775	348,433
	\$	19,621,511	21,117,340

Approved on Behalf of the Board

Derrick H. Rowe
DirectorEmad Rizkalla
Director

Bluedrop Performance Learning Inc.Consolidated Statements of Comprehensive Income
Unaudited**Six months ended March 31**

In Canadian dollars

	Three Months Ended March 31		Six Months Ended March 31	
	2016	2015 (As Restated) (Note 3)	2016	2015 (As Restated) (Note 3)
Revenue				
Services revenue	\$ 4,663,211	4,231,314	\$ 9,462,878	7,604,295
Product sales	3,732,593	1,111,292	4,684,313	2,087,657
	8,395,804	5,342,606	14,147,191	9,691,952
Direct costs	4,916,908	3,187,770	7,621,535	5,903,118
Gross profit	3,478,896	2,154,836	6,525,656	3,788,834
Expenses				
Sales and marketing	541,123	468,555	1,037,484	894,609
General and administration	1,410,127	1,171,015	2,585,324	2,107,038
Research and development costs	1,072,904	-	1,781,865	-
Government assistance and other funding (Note 11)	(977,564)	(247,354)	(1,671,058)	(438,199)
Share-based compensation (Note 10)	29,506	69,615	58,963	140,038
Finance costs (Note 12)	433,282	427,469	863,928	836,528
Depreciation and amortization	261,112	212,498	521,750	426,643
Other (gains) and losses	-	43,745	-	(428,177)
	2,770,490	2,145,543	5,178,256	3,538,480
Profit before income taxes	708,406	9,293	1,347,400	250,354
Income tax expense				
Current	-	-	-	-
Deferred	352,297	(3,884)	758,021	133,015
	352,297	(3,884)	758,021	133,015
Net profit and comprehensive income	\$ 356,109	13,177	\$ 589,379	117,339
Net profit per share (Note 10)				
Basic	0.0036	0.0001	0.0060	0.0012
Diluted	0.0036	0.0001	0.0059	0.0012
Weighted average number of shares outstanding (Note 10)				
Basic	98,986,609	98,986,609	98,986,609	98,986,609
Diluted	99,645,555	99,073,290	99,357,561	99,029,231

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Six months ended March 31In Canadian dollars

	Ordinary Common Shares	Share Capital	Share Option Reserve	Convertible Notes	Retained Earnings (Deficit) (As Restated) (Note 3)	Total
October 1, 2014	98,986,609	\$ 5,053,021	1,120,884	201,466	(6,561,845)	(186,474)
Share-based compensation	-	-	140,038	-	-	140,038
Issue of convertible note, net of tax	-	-	-	26,302	-	26,302
Net profit and comprehensive income	-	-	-	-	117,339	117,339
March 31, 2015	98,986,609	\$ 5,053,021	1,260,922	227,768	(6,444,506)	97,205
Share-based compensation	-	-	54,805	-	-	54,805
Net profit and comprehensive income	-	-	-	-	196,423	196,423
September 30, 2015	98,986,609	\$ 5,053,021	1,315,727	227,768	(6,248,083)	348,433
Share-based compensation	-	-	58,963	-	-	58,963
Net profit and comprehensive income	-	-	-	-	589,379	589,379
March 31, 2016	98,986,609	\$ 5,053,021	1,374,690	227,768	(5,658,704)	996,775

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Six months ended March 31

2016

2015

In Canadian dollars

(As Restated)
(Note 3)

Increase (decrease) in cash and cash equivalents

Operating activities

Net profit for the period	\$	589,379	117,339
Items not affecting cash:			
Share-based compensation		58,963	140,038
Depreciation and amortization		521,750	426,643
Non-cash government assistance		-	(186,548)
Gain on settlement of long term debt		-	(470,422)
Finance costs		863,928	836,528
Deferred taxes		758,021	133,015
Unrealized gain on derivative instruments		(19,535)	-
Loss on disposal of property and equipment		-	43,745
Interest paid		(22,985)	(33,914)
		2,749,521	1,006,424
Changes in non-cash working capital (Note 13)		(913,814)	1,107,312
Net change in cash from operating activities		1,835,707	2,113,736

Investing activities

Proceeds on disposal of property and equipment		-	10,000
Purchase of property and equipment, net of government assistance		(102,008)	(21,239)
Purchase of intangible assets, net of government assistance		-	(369,831)
		(102,008)	(381,070)
Changes in non-cash working capital (Note 13)		-	(70,240)
Net change in cash from investing activities		(102,008)	(451,310)

Financing activities

Repayment of obligations under finance leases		(20,093)	(30,045)
Advances of long term debt		-	1,225,000
Repayment of long term debt		(983,961)	(1,408,961)
Advances of other financial liabilities		-	247,404
Repayment of other financial liabilities		(139,427)	(99,157)
Decrease in other long term liabilities		-	(28,167)
Interest paid		(463,523)	(303,168)
Net change in cash from financing activities		(1,607,004)	(397,094)

Increase in cash and cash equivalents

Cash and cash equivalents (Bank indebtedness), beginning of period		3,196,631	(1,067,600)
Cash and cash equivalents (bank indebtedness), end of period	\$	3,323,326	197,732

Cash and cash equivalents (bank indebtedness) consists of:

Cash on hand and in bank	\$	3,323,326	197,732
Bank indebtedness		-	-
	\$	3,323,326	197,732

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016

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 condensed consolidated interim 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 May 25, 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.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016

In Canadian dollars

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:

	March 31 2015		March 31 2015
	Previously Reported	Adjustment	Restated
Statement of financial position			
Deferred tax assets	\$ 4,679,167	77,349	4,756,516
Goodwill and other intangible assets	5,229,828	(76,080)	5,153,748
Other financial liabilities	971,044	1,453,226	2,424,270
Provisions	1,253,062	(1,253,062)	-
Deficit	(6,245,611)	(198,895)	(6,444,506)
Statement of comprehensive income (six months ended March 31, 2015)			
Government assistance	(450,079)	11,880	(438,199)
Finance costs	839,492	(2,964)	836,528
Depreciation and amortization	441,255	(14,612)	426,643
Income tax expense (Deferred)	131,420	1,595	133,015
Net earnings per share	113,238	4,101	117,339
Net earnings per share - basic and diluted	0.0011	0.0001	0.0012
Statement of comprehensive income (three months ended March 31, 2015)			
Government assistance	(253,164)	5,810	(247,354)
Finance costs	428,951	(1,482)	427,469
Depreciation and amortization	219,804	(7,306)	212,498
Income tax recovery (Deferred)	(4,718)	834	(3,884)
Net earnings per share	11,033	2,144	13,177
Net earnings per share - basic and diluted	0.0001	-	0.0001

4. Accounts receivable

	March 31 2016	September 30 2015
Trade	\$ 2,763,635	3,286,298
Government assistance	1,924,281	1,301,514
Other	79,898	25,413
	<u>\$ 4,767,814</u>	<u>4,613,225</u>

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016

In Canadian dollars

5. Goodwill and other intangible assets

	Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost						
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
March 31, 2016	\$ 265,500	61,815	3,142,103	2,905,000	1,853,131	8,227,549
Accumulated amortization and impairment losses						
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	-	-	248,414	157,785	-	406,199
March 31, 2016	\$ 265,500	61,815	1,729,278	870,214	-	2,926,807
Carrying values						
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
March 31, 2016	\$ -	-	1,412,825	2,034,786	1,853,131	5,300,742

During the six months ended March 31, 2016, the Company commenced the commercialization phase of the *Bluedrop360™* Platform. No development expenditures, or related government assistance, have been included in Intangible assets during the six months ended March 31, 2016.

6. Property and equipment

	Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost					
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	102,008	-	-	-	102,008
March 31, 2016	\$ 643,306	782,876	46,967	193,956	1,667,105
Accumulated depreciation					
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, 2015	\$ 355,906	341,290	46,967	144,578	888,741
Depreciation	58,085	49,422	-	8,044	115,551
March 31, 2016	\$ 413,991	390,712	46,967	152,622	1,004,292
Carrying values					
October 1, 2014	\$ 257,516	591,390	1,494	65,467	915,867
September 30, 2015	\$ 185,392	441,586	-	49,378	676,356
March 31, 2016	\$ 229,315	392,164	-	41,334	662,813

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016In Canadian dollars

7. Deferred development funding

	March 31	September 30
	2016	2015
Opening balance	\$ 1,806,020	-
Funding received	748,082	1,932,602
Development costs incurred	(1,083,513)	(126,582)
Ending balance	\$ 1,470,589	1,806,020

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. In addition, the Company has received \$100,000 of funding from the National Research Council associated with the project.

During the six months ended March 31, 2016 the Company expensed \$1,083,513 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

	March 31	September 30
	2016	2015
Unsecured convertible term notes - 14%	2013-2017 \$ 3,505,284	3,590,031
Unsecured term loan - 16%	2015-2016 -	600,000
Government assistance debt:		
Province of Newfoundland and Labrador - 4.75%	2016-2019 461,616	474,942
Atlantic Canada Opportunities Agency - non-interest bearing	2012-2017 138,769	180,600
Government of Nova Scotia - 5%	2013-2021 1,069,879	1,145,761
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018 207,091	242,682
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019 271,275	295,567
Atlantic Canada Opportunities Agency - non-interest bearing	2016-2017 369,010	431,694
	<u>6,022,924</u>	<u>6,961,277</u>
less: current portion	(1,486,262)	(1,426,660)
Total long term debt	\$ 4,536,662	5,534,617

(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.

(b) Unsecured term loan - 16%

On March 31, 2016 the company repaid the 16% unsecured term loan pursuant to an early repayment agreement entered into with the lender. The term loan had an original maturity date of August 2016.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016In Canadian dollars

9. Other financial liabilities

	March 31	September 30
	2016	2015
Unsecured royalty obligation	\$ 1,155,992	1,103,733
ACOA-AIF unsecured royalty obligation	2,161,054	2,020,928
	3,317,046	3,124,661
less: current portion	(297,363)	(297,363)
Total long term other financial liabilities	\$ 3,019,683	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 had 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 option was undrawn and expired at December 31, 2015.

(b) ACOA-AIF unsecured Royalty obligation

To March 31, 2016 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 product related services resulting from the research funded.

10. Share capital**(a) Authorized**

Unlimited common shares without par value

(b) Common shares issued and outstanding

	Number of	Share
	Shares	capital
Issued and outstanding at October 1, 2014	98,986,609	\$ 5,053,021
Issued and outstanding at September 30, 2015 and March 31, 2016	98,986,609	\$ 5,053,021

(c) Share options (2010 Stock Option Plan)

	Number of	Exercise price
	options	per share
Outstanding at October 1, 2014	262,375	\$0.40
Expired	(25,000)	\$0.40
Outstanding and exercisable at September 30, 2015	237,375	\$0.40
Expired	(237,375)	\$0.40
Outstanding and exercisable at March 31, 2016	-	-

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016In Canadian dollars

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
Granted	700,000	\$0.11
Expired	(1,031,436)	\$0.18
Outstanding at March 31, 2016	15,991,580	\$0.15
Exercisable at March 31, 2016	5,638,477	\$0.14

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 \$58,963 of share-based compensation expense in the six months ended March 31, 2016 relating to the 2011 Stock Option Plan (March 31, 2015 - \$140,038). 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 six months ended March 31, 2016:

Risk free interest rate	0.59%
Expected dividend yield	0%
Share price volatility	37%
Expected life	3.6 years
Average fair value of options granted	\$0.0307

As at the end of the period 3,053,250 of the options outstanding were subject to restrictions which prevent them from being exercised and as such have been excluded from the amount of exercisable options above.

(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 March 31, 2016 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	370,952	42,622
Weighted average number of shares used in diluted earnings per share	99,357,561	99,029,231

At March 31, 2016, 12,482,833 share options (2014 - 13,083,378) and 24,166,667 shares on convertible notes (2014 - 24,166,667) were excluded from the calculation of diluted weighted average number of shares calculation because their effect would be anti-dilutive.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016In Canadian dollars

11. Government assistance and other funding

	Three months ended March 31		Six months ended March 31	
	2016	2015	2016	2015
Government assistance included in income:				
National Research Council	\$ 83,845	15,818	176,871	37,936
Invest New Brunswick	-	31,754	15,000	47,493
Research & Development Corporation	116,003	-	116,003	-
Nova Scotia Digital Media Tax Credits	212,134	70,308	379,671	166,222
Discounts on below-market interest rate financial liabilities	-	129,474	-	186,548
Other indirect government assistance included in income:				
The Boeing Company - Funding under the Government of Canada's IRB Policy	565,582	-	983,513	-
	<u>\$ 977,564</u>	<u>247,354</u>	<u>1,671,058</u>	<u>438,199</u>
Government assistance included in intangible assets:				
National Research Council	\$ -	81,344	-	131,048
Discounts on below-market interest rate financial liabilities	-	72,943	-	101,025
	<u>\$ -</u>	<u>154,287</u>	<u>-</u>	<u>232,073</u>

12. Finance costs

	Three months ended March 31		Six months ended March 31	
	2016	2015	2016	2015
Interest on long term debt	\$ 172,089	176,628	346,513	337,620
Interest on finance lease obligations	368	842	906	1,810
Short term interest and bank charges	5,660	18,377	7,012	29,356
Accretion of long term debt	75,832	84,450	161,712	180,807
Accretion of other financial liabilities	166,945	143,198	331,812	282,378
Other financing costs	12,388	3,974	15,973	4,557
Total finance costs	<u>\$ 433,282</u>	<u>427,469</u>	<u>863,928</u>	<u>836,528</u>

13. Changes in non-cash working capital

	2016	2015
Accounts receivable	\$ (154,589)	1,112,457
Unbilled revenue	596,480	(19,404)
Prepaid expenses	(31,785)	393
Accounts payable and accruals	(124,248)	(60,380)
Deferred revenue	(864,241)	4,006
Deferred development funding	(335,431)	-
	<u>\$ (913,814)</u>	<u>1,037,072</u>
Changes in non-cash working capital related to:		
Operating activities	(913,814)	1,107,312
Investing activities	-	(70,240)
	<u>\$ (913,814)</u>	<u>1,037,072</u>

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016In Canadian dollars

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:

	Three months ended March 31		Six months ended March 31	
	2016	2015	2016	2015
Salaries and other labour costs	\$ 4,223,807	3,448,220	7,879,801	6,429,533
Materials, services and supplies	2,869,101	748,546	3,612,620	1,295,868
Travel and living	141,150	94,548	264,833	186,091
Occupancy	186,707	197,589	381,997	391,201
Professional fees	133,231	291,089	329,686	442,184
Other costs	387,066	47,348	557,271	159,888
Total expenses classified by nature	\$ 7,941,062	4,827,340	13,026,208	8,904,765

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 March 31, 2016 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 six months ended March 31, 2016 the Company incurred \$48,132 (2014 - \$37,625) of finance charges associated with the term loan. The loan was repaid in full on March 31, 2016.

(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 six months ended March 31, 2016 the Company incurred \$141,120 (2014 - \$131,040) 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.

	Three months ended March 31		Six months ended March 31	
	2016	2015	2016	2015
Fees, salaries and benefits to key management personnel	170,956	240,600	469,481	395,700
Share based compensation to key management personnel	14,313	42,015	29,946	86,592

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016

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:

	Six months ended March 31, 2016			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 2,386,052	11,761,139	-	14,147,191
Direct costs	1,072,932	6,548,603	-	7,621,535
Gross profit	1,313,120	5,212,536	-	6,525,656
Expenses				
Sales and marketing	822,513	210,235	4,736	1,037,484
General and administration	346,455	655,657	1,583,212	2,585,324
Research and development costs	698,352	1,083,513	-	1,781,865
Government assistance and other funding	(207,874)	(1,463,184)	-	(1,671,058)
Share-based compensation	10,355	10,821	37,787	58,963
Finance costs	-	-	863,928	863,928
Depreciation and amortization	309,158	205,010	7,582	521,750
	1,978,959	702,052	2,497,245	5,178,256
(Loss) earnings before income taxes	\$ (665,839)	4,510,484	(2,497,245)	1,347,400

	Six months ended March 31, 2015			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,674,675	8,017,277	-	9,691,952
Direct costs	902,931	5,000,187	-	5,903,118
Gross profit	771,744	3,017,090	-	3,788,834
Expenses				
Sales and marketing	572,266	289,429	32,914	894,609
General and administration	287,799	484,171	1,335,068	2,107,038
Government assistance and other funding	(198,120)	(166,222)	(73,857)	(438,199)
Share based compensation	23,614	13,733	102,691	140,038
Finance costs	-	-	836,528	836,528
Depreciation and amortization	204,134	213,864	8,645	426,643
Other (gains) and losses	-	-	(428,177)	(428,177)
	889,693	834,975	1,813,812	3,538,480
(Loss) earnings before income taxes	\$ (117,949)	2,182,115	(1,813,812)	250,354

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2016In Canadian dollars

16. Segment reporting (continued)

	Three months ended March 31, 2016			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,225,614	7,170,190	-	8,395,804
Direct costs	542,965	4,373,943	-	4,916,908
Gross profit	682,649	2,796,247	-	3,478,896
Expenses				
Sales and marketing	448,821	88,663	3,639	541,123
General and administration	221,920	362,981	825,226	1,410,127
Research and development costs	407,322	665,582	-	1,072,904
Government assistance and other funding	(99,848)	(877,716)	-	(977,564)
Share-based compensation	5,507	5,547	18,452	29,506
Finance costs	-	-	433,282	433,282
Depreciation and amortization	154,638	102,660	3,814	261,112
	1,138,360	347,717	1,284,413	2,770,490
(Loss) earnings before income taxes	\$ (455,711)	2,448,530	(1,284,413)	708,406

	Three months ended March 31, 2015			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 834,620	4,507,986	-	5,342,606
Direct costs	476,850	2,710,920	-	3,187,770
Gross profit	357,770	1,797,066	-	2,154,836
Expenses				
Sales and marketing	325,596	129,727	13,232	468,555
General and administration	188,188	203,542	779,285	1,171,015
Government assistance and other funding	(103,189)	(70,308)	(73,857)	(247,354)
Share based compensation	10,952	8,922	49,741	69,615
Finance costs	-	-	427,469	427,469
Depreciation and amortization	103,875	104,652	3,971	212,498
Other (gains) and losses	-	-	43,745	43,745
	525,422	376,535	1,243,586	2,145,543
(Loss) earnings before income taxes	\$ (167,652)	1,420,531	(1,243,586)	9,293