Management's Discussion and Analysis of Results of Operations and Financial Condition
For the Year ended September 30, 2016

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") of Bluedrop Performance Learning Inc. ("Bluedrop" or "the Company") provides the reader with a view and analysis, from the perspective of management, of Bluedrop's financial results for the year ended September 30, 2016 and should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto for the year ended September 30, 2016. All financial information has been prepared in accordance with International Financial Reporting Standards. All monetary amounts are stated in Canadian dollars. References to years are to the fiscal years ended September 30th unless otherwise noted. This MD&A has been prepared as of January 30, 2017.

The information contained in this MD&A represents only a portion of current information available on Bluedrop. Readers are encouraged to read this document together with prior annual and quarterly reports, news releases and corporate presentations which are available by visiting the Company's website at www.bluedrop.com. Additional information regarding the Company, including all continuous disclosure documents, can be obtained on SEDAR at www.sedar.com. If you require a hard copy of any of these documents please call the main office number (709) 739-9000.

Caution Regarding Forward-Looking Information

This MD&A contains certain forward-looking statements which may be based on forecasts of future results and estimates of amounts not yet determinable. These statements may involve, but are not limited to, comments relating to strategies, expectations, planned operations or future actions. Forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions.

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. The Company is subject to the risks outlined in the "Risk Factors" section of this MD&A. No assurance can be provided that the results or performance expressed in or implied by forward-looking statements within this MD&A will occur, or if they do, that any benefits may be derived from them. The forward-looking statements contained in this MD&A represent Bluedrop's expectations as of January 30, 2017 and are subject to change after such date.

COMPANY OVERVIEW

Bluedrop is an innovator in both the development of workplace e-learning and simulation as well as the way large organizations deliver, track and manage training. The Company serves the world's leading aerospace and defence organizations as well as broad cross sections of organizations focused on managing system wide health and safety, and developing the skills of external workforces. Bluedrop is creating the workforce of the future by improving the effectiveness, speed and costs of training and delivery management.

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 platforms providing large scale customers with the ability to engage, track training and monitor training of large users groups spread out over 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.

SELECTED ANNUAL INFORMATION

(Canadian dollars in thousands)		Year Ended September 30th		
Fiscal year		**2016**	**2015**	**2014**
Total revenue	$	24,830	21,173	15,393
Net profit (loss)		1,042	314	(3,828)
Per share - basic[1]		0.0106	0.0032	(0.0387)
Per share - diluted[1]		0.0104	0.0032	(0.0387)
Total assets		22,007	21,117	19,663
Total long term financial liabilities		10,222	8,373	7,532

The above financial information was extracted from the Company's annual audited consolidated financial statements, which were prepared in accordance with IFRS.

On December 31, 2013, the Company acquired all the issued and outstanding common shares of Atlantis Systems Corp. The increase in the total amounts noted above reflects the combined results of the business combination for the nine months ended September 30, 2014 and for the years ended September 30, 2015 and September 30, 2016.

RESTATEMENT OF 2016 QUARTERLY RESULTS

During the fourth quarter of the fiscal year ended September 30, 2016, the Company determined that one project did not meet the requirements for revenue recognition throughout the first three quarters of fiscal 2016. As a result, management has adjusted the financial results for the first three quarters of fiscal 2016 by removing the related revenues and recording the expenditures incurred as a current asset at cost. The financial impact has been accounted for on a retroactive basis as follows:

Statements of Comprehensive Income
For the Year Ended September 30, 2016

(Canadian dollars in thousands)

	QE June 30		QE March 31		QE Dec 31	
	Restated	**Previous**	**Restated**	**Previous**	**Restated**	**Previous**
Revenue						
Bluedrop Training and Simulation	$ 4,490	$ 4,750	$ 6,869	$ 7,170	$ 4,411	$ 4,591
Bluedrop Learning Networks	$ 1,146	$ 1,146	$ 1,226	$ 1,226	$ 1,160	$ 1,160
	5,636	5,896	8,095	8,396	5,571	5,751
Direct costs	3,162	3,263	4,791	4,917	2,629	2,705
Gross profit	2,474	2,633	3,304	3,479	2,942	3,046
Gross profit percentage	44%	45%	41%	41%	53%	53%
Expenses						
Sales and marketing	611	611	541	541	496	496
General and administration	1,146	1,146	1,202	1,202	1,193	1,193
Research and development costs	1,084	1,084	1,073	1,073	709	709
Government assistance and other funding	(1,350)	(1,350)	(977)	(977)	(693)	(693)
Share-based compensation	5	5	30	30	29	29
Finance costs	396	396	433	433	431	431
Depreciation and amortization	264	264	261	261	261	261
Other gains and losses	51	51	208	208	(18)	(18)
	2,207	2,207	2,771	2,771	2,408	2,408
Earnings before income taxes	267	426	533	708	534	638
Income taxes	170	219	298	352	373	405
Net earnings	$ 97	$ 207	$ 235	$ 356	$ 161	$ 233
Net earnings per share						
Basic	0.0010	0.0021	0.0024	0.0036	0.0016	0.0024
Diluted	0.0009	0.0020	0.0024	0.0036	0.0016	0.0024
Weighted average number of shares						
Basic (in thousands)	98,806	98,806	98,987	98,987	98,987	98,987
Diluted (in thousands)	102,532	102,532	99,646	99,646	99,106	99,106

The net effect of change on the Company's statement of comprehensive income (loss) for the nine months ended June 30, 2016 is a cumulative decrease of $302,069.

The table below illustrates the impact of the restatement on the previously reported statement of financial position for the quarterly periods:

(Canadian dollars in thousands)	2016					
	QE June 30		QE March 31		QE Dec 31	
	Restated	Previous	Restated	Previous	Restated	Previous
ASSETS						
Current assets						
Cash and cash equivalents	1,242	1,242	3,323	3,323	2,168	2,168
Accounts receivable	6,756	6,756	4,768	4,768	6,820	6,820
Unbilled revenue	518	1,259	384	865	1,133	1,313
Other current assets	818	515	733	531	553	477
	9,334	9,772	9,208	9,487	10,674	10,778
Other long term assets	50	50	170	170	170	170
Deferred tax assets	3,899	3,764	4,087	4,001	4,403	4,371
Goodwill and other intangible assets	5,098	5,098	5,301	5,301	5,504	5,504
Property and equipment	644	644	663	663	667	667
	19,025	19,328	19,429	19,622	21,418	21,490
LIABILITIES AND EQUITY						
Current liabilities						
Accounts payable and accruals	3,902	3,902	2,871	2,871	2,607	2,607
Deferred revenue	2,753	2,753	4,283	4,283	5,549	5,549
Deferred development funding	1,335	1,335	1,471	1,471	1,388	1,388
Other current liabilities	1,810	1,810	1,803	1,803	2,351	2,351
	9,800	9,800	10,428	10,428	11,895	11,895
Long term debt	4,396	4,396	4,537	4,537	4,773	4,773
Other financial liabilities	3,085	3,085	3,020	3,020	2,934	2,934
Deferred revenue	431	431	101	101	716	716
Deferred tax liabilities	520	520	537	537	554	554
Other long term liabilities	34	34	3	3	7	7
	18,266	18,266	18,626	18,626	20,879	20,879
Equity						
Share capital	5,005	5,005	5,053	5,053	5,053	5,053
Reserves	1,607	1,607	1,602	1,602	1,573	1,573
Deficit	(5,853)	(5,550)	(5,852)	(5,659)	(6,087)	(6,015)
	759	1,062	803	996	539	611
	19,025	19,328	19,429	19,622	21,418	21,490

DISCUSSION OF OPERATIONS

Bluedrop Training and Simulation

During the year ended September 30, 2016, the Bluedrop Training and Simulation business unit continued to yield strong revenues and gross margins and made significant investments in development of simulation technology. The business unit increased revenues to $20.0 million, an increase from $17.4 million in the prior year. The increase was primarily a result of strong revenues on US contracts in addition to a delivery of a simulation product sale throughout 2016.

Revenue declined slightly in the fourth quarter as a result of lower utilization on courseware development activities in the period. The Bluedrop Training and Simulation business unit ended the year with an estimated revenue backlog[1] of $37.1 million. The business unit continues to pursue several multi-year renewals, extension bids and new contracts. Subsequent to the year end, the Company signed two significant contracts including an extension to the courseware production support for the Army Learning Support Centre ("ALSC") of over $4.0 million and a $5.5 million contract to deliver a Bell 206 Level 7 Flight Training Device to the Contracted Flying Training and Support ("CFTS") Program.

The business unit continued to focus on developing strategic product based offerings with a goal of working with large scale aerospace equipment manufacturers to develop low cost simulation offerings. In 2015, Bluedrop Training and Simulation and The Boeing Company ("Boeing") announced a partnership to develop a next generation rear crew trainer for the CH-47

[1] See section titled "Non-GAAP Financial Measures"

Chinook Helicopter. The program is supported by Industry Canada's Investment Framework and the new Value Proposition guidelines. The company continued increased development expenditures as an integrator for advanced simulators.

Bluedrop Learning Networks

During the year ended September 30, 2016, the Bluedrop Learning Networks business unit continued pursuits in the Occupational Health and Safety and Workforce Development verticals. Additionally, the business unit continued research and development investments in the *Bluedrop360™* platform. The business unit generated $4.9 million of revenue in the year, up from $3.8 million in the prior year.

The business unit continues to pursue multiple market opportunities and ended the year with an estimated revenue backlog[1] of $6.3 million.

During the first quarter of fiscal 2016, the business unit reached the commercialization phase of the *Bluedrop360™* platform by launching a significant customer on the platform in the Occupational Health and Safety vertical. Given the shift to a commercialization phase, the company discontinued capitalization of expenditures related to the *Bluedrop360™* platform. In March 2016, Bluedrop Learning Networks and Pacific Gateway announced a US Workforce Development initiative that adapts the platform for the US Workforce Development market. The company continued to incur expenditures aiming at improving the platforms functionality and adapting the offering to meet the needs of these market verticals.

During 2016, the Company began transitioning customers from its *CoursePark™* platform to the newly developed *Bluedrop360™* platform. As a result of the migration, technology assets related to *CoursePark*™ platform have a reduced future recoverable amount. For the year ended September 30, 2016, management has recorded an impairment loss of $320,366 related to these assets.

Corporate

During the year ended September 30, 2016, management continued to monitor financial requirements and maintained appropriate working capital and cash availability positions ending the period with $3.1 million in cash and no draw on the bank line of credit.

Throughout 2016 the Company entered into several financing arrangements including the extension of the maturity date on an unsecured convertible debenture for $3.0 million for one year from December 30, 2016 to December 30, 2017. On March 31, 2016, the Company repaid the 16% unsecured term loan pursuant to an early repayment. On September 30, 2016, the Company secured a $3.0 million term loan with the Royal Bank of Canada, bearing interest at 4.09% per annum and maturing on September 30, 2019. The Company raised the new debt to preserve working capital for growth and to fund its maturing debt obligations during the next two years. Proceeds of the loan are held in a restricted Guaranteed Investment Certificate as additional security for the new loan until a decision is made regarding conversion or repayment of the unsecured convertible debenture. These initiatives improved the Company's short term net working capital position and provided cash availability to undertake strategic growth initiatives in the business units.

During the fourth quarter, the Company entered into an agreement to amend the unsecured royalty arrangement with Grenville. As part of the amendment, in exchange for an increased monthly minimum royalty for the next 11 months, Bluedrop will now have the right to extinguish the royalty at any time upon payment of a fixed buyout.

On March 31, 2016, the company commenced a normal course issuer bid ("NCIB") to acquire up to an aggregate of 4,949,330 outstanding common shares. The bid will expire on March 30, 2017. As of September 30, 2016, 1,436,000 common shares had been repurchased under the NCIB.

The Company continued to monitor fluctuations in foreign currency exchange rates which could significantly impact cash flows from contracts with US customers. The Company has entered into hedging instruments to mitigate the impact of foreign currency fluctuations.

FINANCIAL RESULTS OF OPERATIONS

The following tables and discussion compare Bluedrop's operating results for the year ended September 30, 2016 to the same period ended September 30, 2015.

(Canadian dollars in thousands)	Quarter ended September 30 2016	2015	Change (2016 vs. 2015) $	%
Revenue				
Services revenue	3,770	4,717	(947)	-20%
Product sales	1,757	1,411	346	25%
	5,527	6,128	(601)	-10%
Direct costs	2,832	2,905	(73)	-3%
Gross profit	2,695	3,223	(528)	-16%
Gross profit percentage	49%	53%		
Expenses				
Sales and marketing	365	639	(274)	-43%
General and administration	1,259	1,231	28	2%
Research and development costs	986	127	859	676%
Government assistance	(1,214)	(266)	(948)	356%
Share-based compensation	18	29	(11)	-38%
Finance costs	674	736	(62)	-8%
Depreciation and amortization	325	252	73	29%
Other gains and losses	228	(69)	297	-430%
	2,641	2,679	(38)	-1%
Earnings before income taxes	54	544	(490)	-90%
Income taxes	(493)	(75)	(418)	557%
Net earnings (loss)	547	619	(72)	-12%

(Canadian dollars in thousands)	Year ended September 30 2016	2015	Change (2016 vs. 2015) $	%
Revenue				
Services revenue	16,686	16,528	158	1%
Product sales	8,144	4,645	3,499	75%
	24,830	21,173	3,657	17%
Direct costs	13,413	11,900	1,513	13%
Gross profit	11,417	9,273	2,144	23%
Gross profit percentage	46%	44%		
Expenses				
Sales and marketing	2,013	2,056	(43)	-2%
General and administration	4,801	4,846	(45)	-1%
Research and development costs	3,852	127	3,725	2933%
Government assistance and other funding	(4,235)	(558)	(3,677)	659%
Share-based compensation	82	195	(113)	-58%
Finance costs	1,934	1,998	(64)	-3%
Depreciation and amortization	1,111	898	213	24%
Other gains and losses	469	(663)	1,132	-171%
	10,027	8,899	1,128	13%
Earnings before income taxes	1,390	374	1,016	272%
Income taxes	349	61	288	472%
Net earnings	1,041	313	728	233%

Revenue

For the quarter ended September 30, 2016, revenues were $5,527,378 a decrease of $601,033 (10%) as compared to the same period in 2015. For the year ended September 30, 2016, revenues were $24,830,364, an increase of $3,657,512 (17%) as compared to the same period in 2015.

The following tables illustrate the change in revenues from each identified operating segment for the year ended September 30, 2016.

	Quarter ended September 30				Change (2016 vs. 2015)	
	2016	% of total	2015	% of total	$	%
Revenue						
Bluedrop Training and Simulation	4,196	76%	4,986	81%	(790)	-16%
Bluedrop Learning Networks	1,331	24%	1,142	19%	189	17%
	5,527	100%	6,128	100%	(601)	-10%

	Year ended September 30				Change (2016 vs. 2015)	
	2016	% of total	2015	% of total	$	%
Revenue						
Bluedrop Training and Simulation	19,967	80%	17,419	82%	2,548	15%
Bluedrop Learning Networks	4,863	20%	3,754	18%	1,109	30%
	24,830	100%	21,173	100%	3,657	17%

During the year ended September 30, 2016, the Bluedrop Training and Simulation results reflected higher revenues on US currency revenue transactions as a result of favorable exchange rate fluctuations over the previous period. The Company also recorded $3.2 million of revenue associated with new simulator product sales in the period. During the fourth quarter, revenues decreased slightly as a result of decreased courseware development activity. The Bluedrop Learning Networks operations realized higher revenues as a result of increased courseware development activity on a large US workforce development project.

Direct costs

Direct costs include all labour costs plus materials, supplies, third party services and travel costs directly associated with projects, as well as any royalties that may be payable as a result of revenues generated from licensed products.

For the quarter ended September 30, 2016 total direct costs were $2,831,510, a decrease of $72,621 (3%) over the same quarter in the prior fiscal year. For the year ended September 30, 2016 total direct costs were $13,413,174, an increase of $1,513,214 (13%) as compared to the same period 2015.

The increase is primarily attributed to materials costs associated with delivery of a simulator product sale in the period.

Gross profit

For the quarter ended September 30, 2016, gross profit was $2,695,868, a decrease of $528,412 (16%) over the same quarter in the prior period. The reported gross profit percentage for the quarter ended September 30, 2016 was 49% as compared to 53% for the same period in the prior year.

For the year ended September 30, 2016, gross profit was $11,417,190, an increase of $2,144,298 (23%) over the same period in the prior fiscal year. The reported gross profit percentage for the year ended September 30, 2016 was 46% as compared to 44% for the same period in 2015.

The Bluedrop Training and Simulation business unit gross profit for the year ended September 30, 2016 was $8,720,289 versus $7,511,804 for the same period in 2015. The gross profit percentage was 44% for the current period versus 43% for the prior period. The increased gross profit in 2016 was a result of higher revenues on US currency revenue transactions because of favorable exchange rate fluctuations over the previous period.

The Bluedrop Learning Networks business unit gross profit for the year ended September 30, 2016 was $2,696,901 as compared to $1,761,088 for the same period in 2015, resulting in a gross margin of 55% versus 47% for the same period in 2015. The increase in gross profit percentage was a direct result of higher revenues because of increased courseware development activity on a large US workforce development project as noted above.

Sales and marketing

For the quarter ended September 30, 2016, sales and marketing expenses were $364,542, a decrease of $274,939 (43%) over the same quarter in the prior period. The decrease in in the quarter was primarily related to a decrease in labour cost compared to the same quarter in 2015. For the year ended September 30, 2016, sales and marketing expenses were $2,012,795, a decrease of $43,306 (2%) year over year.

General and administration

For the quarter ended September 30, 2016, general and administration expenses were $1,258,266, an increase of $27,522 (2%) over the same quarter in the prior period. For the year ended September 30, 2016, general and administration expenses were $4,800,577, a decrease of $46,004 (1%) over the same quarter in the prior period.

The decrease over the prior period is primarily attributed to professional advisory fees associated with reorganization and transaction advisory activities incurred in the prior period. This was slightly offset by increased labour costs associated with the growth of the business.

Government assistance

For the quarter ended September 30, 2016, government assistance included in income was $1,213,716, an increase of $948,082 (357%) over the same quarter in the prior period. For the year ended September 30, 2016, government assistance included in income was $4,235,059, an increase of $3,676,912 (659%) over the same period in the prior fiscal year.

During the year ended September 30, 2016, the Company recognized $2,400,898 of government assistance associated with expenditures on the development of a next generation rear crew trainer for the CH-47 Chinook Helicopter. In addition, the Company recognized government assistance of $529,645 related to Newfoundland and Labrador Digital Media Tax Credits. Included in this amount is $194,151 of 2015 tax credits.

Share-based compensation

Pursuant to its 2011 Stock Option Plan, the Company has reserved a maximum of 16,827,718 of the issued and outstanding common shares of the Company for issuance on the exercise of share options. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model.

The Company recorded $82,068 as share-based compensation expense for the year ended September 30, 2016 and $194,843 for the same period in 2015.

The Company has an 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 September 30, 2016 no shares were outstanding under the plan.

Finance costs

For the quarter ended September 30, 2016, finance costs were $673,417, a decrease of $61,667 (8%) over the same quarter in the prior period. For the year ended September 30, 2016 finance costs were $1,933,590, a decrease of $63,935 (3%) over the same period in the prior fiscal year.

During the fiscal year the Company repaid $1,508,340 of long-term debt including repayment of a 16% unsecured term loan in the amount of $600,000 from an entity controlled by the Company's beneficial controlling shareholder and director. This reduced finance costs for the year ended September 30, 2016.

During the fourth quarter the Company amended the terms of the unsecured royalty obligation. The amendment resulted in a $673,869 charge to finance costs associated with revaluation of the financial liability.

Depreciation and amortization

For the quarter ended September 30, 2016, depreciation and amortization expense was $324,482, an increase of $73,194 (29%) over the same quarter in the prior year. For the year ended September 30, 2016, depreciation and amortization expense was $1,110,674, an increase of $213,167 (24%) over the same period in the prior fiscal year.

The increase is primarily the result of $1,117,489 of intangible asset additions is the prior fiscal year. During the year ended September 30, 2016 the Company invested $119,986 in capital assets. There were no additions to intangible assets in the year ended September 30, 2016.

Other gains and losses

For the year ended September 30, 2016, the Company recorded a loss of $469,138 compared to a gain of $662,818 during the same period in 2015, a negative change of $1,131,956 (171%), year over year.

On December 30, 2014, the Company entered into an early discounted settlement agreement to repay the secured convertible term note acquired in the acquisition of Atlantis Systems Corp. The early settlement resulted in a gain of $470,422. In the quarter ended September 30, 2016, the Company recorded an impairment loss of $320,366 related to the CoursePark™ platform assets as discussed above. In addition, the company incurred foreign currency exchange losses of $188,672 during the 2016 fiscal year compared to a gain of $234,641 in the same period in the prior year.

Income taxes

For the quarter ended September 30, 2016, income tax recovery was $492,640, as compared to $74,784 in the same period in the prior year. During the quarter, the Company recognized additional tax assets associated with previously unrecognized tax losses. For the year ended September 30, 2016 income tax expense was $349,101 as compared to $60,956 in the same period in the prior year. The increase in the income tax expense is a result of the increased taxable income over the comparative period, offset by the recognition of prior period tax losses.

QUARTERLY INFORMATION

The table below provides a summary of operating results for the Company for each quarter in the current and previous fiscal periods. This table and commentary following illustrates some of the trends within the business and the impact on margins and profits of certain types of revenue-generating activities.

(Canadian dollars in thousands)

Fiscal year	**2016**	**2016**	**2016**	**2016**	**2015**	**2015**	**2015**	**2015**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31
Revenue								
Bluedrop Training and Simulation	$ 4,196	$ 4,490	$ 6,869	$ 4,411	$ 4,986	$ 4,416	$ 4,507	$ 3,509
Bluedrop Learning Networks	$ 1,331	$ 1,146	$ 1,226	$ 1,160	$ 1,142	$ 937	$ 835	$ 840
	5,527	5,636	8,095	5,571	6,128	5,353	5,342	4,349
Direct costs	2,832	3,162	4,791	2,629	2,904	3,093	3,188	2,715
Gross profit	2,695	2,474	3,304	2,942	3,224	2,260	2,154	1,634
Gross profit percentage	49%	44%	41%	53%	53%	42%	40%	38%
Expenses								
Sales and marketing	365	611	541	496	639	522	469	426
General and administration	1,258	1,146	1,202	1,193	1,231	1,257	1,357	1,001
Research and development costs	986	1,084	1,073	709	127	-	-	-
Government assistance	(1,214)	(1,350)	(977)	(693)	(266)	146	(247)	(191)
Share-based compensation	18	5	30	29	29	26	69	70
Finance costs	674	396	433	431	736	426	427	409
Depreciation and amortization	325	264	261	261	252	220	212	214
Other gains and losses	228	51	208	(18)	(69)	86	(143)	(537)
	2,640	2,207	2,771	2,408	2,679	2,683	2,144	1,392
Earnings (loss) before income taxes	55	267	533	534	545	(423)	10	242
Income taxes (recovery)	(493)	170	298	373	(75)	3	(4)	137
Net earnings (loss)	$ 548	$ 97	$ 235	$ 161	$ 620	$ (426)	$ 14	$ 105

Fiscal 2016

During the first quarter of fiscal 2016, the Company maintained an increased level of revenues and gross margins as a result of improved revenues in both business units. During the quarter the Company increased its investment in research and development associated with the CH-47 Chinook rear crew trainer and the *Bluedrop360™* platform. These expenditures were mostly offset by government assistance and other funding related to those expenditures. The company recorded significant tax expense associated with the higher taxable income.

In the second quarter of fiscal 2016, the Bluedrop Training and Simulation business unit recorded a significant increase in revenues and direct costs associated with increased simulation product sales in the period. In addition, the company continued increased investment in research and development associated with the CH-47 Chinook rear crew trainer and the *Bluedrop360™* platform, with costs significantly offset by related government assistance.

In the third quarter of fiscal 2016, revenue and direct costs returned to their normal levels following the sale of the simulation products during the second quarter. In addition, the Company recognized government assistance of $312,885 related to Newfoundland and Labrador Digital Media Tax Credits.

During the fourth quarter of fiscal 2016, the Company continued normal levels of operating activities. Higher government assistance was recognized related to the ongoing DMTC programs and finance charges increased primarily due to the revaluation of financial liabilities. In addition, the Company recorded an impairment loss of $320,366 related to certain technology assets associated with the *CoursePark*™ platform, while also recognizing additional tax assets associated with previously unrecognized tax losses.

Fiscal 2015

During the first quarter of fiscal 2015, the Company recognized lower costs as a result of cost reduction strategies implemented late in 2014. In addition, the Company recorded a gain on settlement due to early repayment of a term debt which is included in other gains and losses.

During the second quarter of fiscal 2015, revenues increased in the Bluedrop Training and Simulation business. This was a result of increasing revenues on US dollar contracts due to favorable foreign exchange rate fluctuations as well as an increase in revenue on a significant percentage complete contract due to a decrease in the estimated costs to complete. The Company increased spending in general and administration functions to facilitate future strategic growth.

In the third quarter of fiscal 2015, the Company continued to recognize higher revenues and gross margins and increased strategic spending in general and administration functions. The Company recorded an expense in government assistance related to a loss provision for SR&ED credit related to prior tax years.

During the final quarter of fiscal 2015 revenue growth continued. This was a result of increased revenues on US dollar contracts due to favorable foreign exchange rate fluctuations as well as an increased courseware development and professional services activities. Finance cost increases are attributed to revaluation of financial liabilities at the balance sheet date.

LIQUIDITY AND CAPITAL RESOURCES

For the year ended September 30, 2016, the Company used cash and cash equivalents of $85,279 (2015 – generated cash and cash equivalents of $4,264,231).

Operating activities

For the year ended September 30, 2016, the Company's generated cash from operating activities of $2,869,879 compared to cash generated of $6,128,135 for the same period in the prior year.

Changes in non-cash working capital related to operating activities consumed cash of $1,896,395 during fiscal 2016. This included a decrease in deferred revenue of $1,622,770, offset by a decrease in unbilled revenue of $1,380,257, due to differences in the timing of project execution and billing milestones. In addition, deferred development funding consumed cash by $983,211 due to utilization of funding for research and development activities, as well as the increase in ongoing work in progress of $388,504.

Investing activities

For the year ended September 30, 2016, the Company consumed cash of $3,119,986 for investing activities compared to cash consumed of $1,329,025 for the same period in the prior year.

The increase in cash consumption during the fiscal year was because Company purchased a $3.0 million Guaranteed Investment Certificate from the proceeds of the new RBC loan. Comparatively, in the prior year the Company invested $1,283,017 in intangible assets.

Financing activities

For the year ended September 30, 2016, the Company generated $164,828 of cash in financing activities as compared to cash used of $1,056,837 from financing activities for the same period in the prior year.

As discussed above, the Company secured a $3,000,000 term loan with the Royal Bank of Canada. This was offset by cash consumed of $2,254,538 for repayments of long term debt and related interest. This included the early repayment of the 16% unsecured term loan, from an entity controlled by the Company's beneficial controlling shareholder and director, in the amount of $600,000 at March 31, 2016. In addition, the Company also consumed $323,416 related to repayment of other financial liabilities and $227,330 for shares purchases under the normal course issuer bid.

Cash and credit availability

As at September 30, 2016, the Company held cash and cash equivalents of $3,111,352.

The Company has a short-term bank operating line of credit to a maximum of the lesser of $3,500,000 and defined marginable accounts receivable minus specified liabilities. The revolving operating facility is repayable on demand and bears interest at Royal Bank prime plus 1.95%. The Company has provided a General Security Agreement as security for this indebtedness. At September 30, 2016, the line of credit was undrawn.

CONTRACTUAL OBLIGATIONS

The following table contains a summary of the Company's contractual obligations and commitments to make future payments under contracts including debt, finance leases and operating leases at September 30, 2016:

Scheduled payments due by period (Canadian dollars in thousands)	**Long term debt**	**Finance leases**	**Operating leases**	**Total**
2017	2,218	17	705	2,940
2018	5,135	11	705	5,851
2019	1,913	11	698	2,622
2020	288	11	686	985
2021	211	5	686	902
Thereafter	135	-	1,178	1,313
	$ 9,900	$ 55	$ 4,658	$ 14,613

SHARE INFORMATION

At September 30, 2016, the Company had issued 98,217,276 common shares and 11,550,187 share options that can be exercised when vested to obtain an equivalent number of common shares.

The Company has an 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 September 30, 2016, no shares were outstanding under the plan.

As at September 30, 2016 the Company had two outstanding convertible notes which, if converted, would result in the issuance of 23,500,000 of common shares. During the fourth quarter of fiscal 2016, $100,000 of the unsecured convertible notes were converted into common shares at a price of $0.15 per share for an issuance of 666,667 shares. Subsequent to year end, $525,000 of the unsecured convertible term notes were converted into common shares at a price of $0.15 per share for a total share issuance of 3,500,000.

Normal Course Issuer Bid

On March 22, 2016, the Company announced its intentions to undertake a normal course issuer bid ("NCIB"). As of September 30, 2016, 1,436,000 common shares had been repurchased, with 969,500 of those common shares cancelled as of that date. The 466,500 common shares repurchased in September were cancelled on October 6, 2016. The purchases resulted in a decrease to share capital and retained earnings of $71,800 and $155,530, respectively.

Under the terms of the NCIB, the Company may acquire up to 2% of the total issued and outstanding shares in a 30-day period, up to a maximum of 4,949,330 shares during the 12-month period ended March 30, 2017, representing approximately 5% of the public float of the Company prior to commencement of the NCIB.

Such purchases will be made through the facilities of the TSX Venture Exchange ("TSXV"). Shareholders may obtain a copy of the Notice of Intention to Make a Normal Course Issuer Bid filed by the Company with the TSXV in respect of the NCIB, without charge, by contacting the Company.

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. Significant related party transactions are reviewed and approved by the Audit Committee of the Board. The following is a summary of related party transactions during the year ended September 30, 2016:

- The Company recorded rent expense of $282,240 for the year ended September 30, 2016 (2015 - $262,080) for rental of premises from a company controlled by the Company's President & Chief Executive Officer. Effective October 1, 2011 the Company entered into a 6-year lease, with a 4-year renewal option, for 100% of the premises available for lease at 18 Prescott Street, St. John's, NL. The lease includes an initial net lease rate for two years with escalation provisions periodically thereafter.

- The Company recognized an expense of $823,542 for the year ended September 30, 2016 (2015 - $888,403) for fees, salaries and benefits to its key management personnel for services rendered. Key management is considered to be members of the Board of Directors, the President & Chief Executive Officer and the Chief Financial Officer. The Executive Chairman's fees are paid to a corporation under his control.

- The Company recognized an expense of $51,403 for the year ended September 30, 2016 (2015 – $116,049) for share based compensation to its key management personnel (as described above).

- During the second quarter of fiscal 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. The term loan bears interest, payable monthly, at 16% per annum and is subordinated to existing senior credit and other term facilities. The terms of the loan provide that early repayment can be made by Bluedrop, without penalty, by providing 90 days' notice. The Company recorded finance costs of $48,132 related to the loan during the year ended September 30, 2016 (2015 – $85,756). The loan was repaid in full on March 31, 2016.

- 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 September 30, 2016 the amount receivable was $169,816 (September 30, 2015 - $169,816), $119,589 of this amount has been classified as current.

ACCOUNTING ESTIMATES

In the process of applying the Company's accounting policies, management has made certain judgments, estimates, and assumptions which affect the amounts recognized in the Consolidated Financial Statements. The Company has identified the following policies where critical judgments, estimates and assumptions are made and where actual results could be materially different.

Significant management judgements

The following are significant management judgements in applying the accounting policies that have the most significant impact on the financial statements:

(a) Revenue recognition

Revenue from services contracts is recognized on a percentage of completion basis, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Judgment is used in determining the stage of completion and estimates of costs to complete. The Company employs sophisticated project management tools to assist with the management of projects and the recognition of revenue on a percentage completion basis. Management regularly reviews the systems, processes, and calculations relating to percentage completion on significant contracts, making adjustments as required.

(b) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company records income tax expense (recovery) based on management's interpretation of the tax regulations and its assumptions about the timing of income and expenses for tax purposes. Actual tax assessments or future changes to assumptions could result in future adjustments to recorded tax expense.

The Company has recognized deferred tax assets in the Company's financial statements for the period ended September 30, 2016. Management considers that it is more likely than not that these tax assets will be realized. The ultimate realization of these assets is dependent upon the Company's ability to generate sufficient taxable income to offset the tax losses carried forward as well as the reversal of the differences between the carrying amount of items on the statement of financial position and their corresponding tax basis. If future circumstances indicate that it is no longer probable that these tax assets will be realized, the carrying value of the tax asset will be reduced, resulting in a charge against income and a reduction of equity.

(c) Government assistance

The Company receives government assistance pursuant to specific contractual funding agreements and is also eligible to receive cash tax credits under the Digital Media Tax Credit (DMTC) program. Claims relating to specific funding agreements are based on the defined eligible costs pursuant to the agreements. Contributions are recognized when the related expenditures are incurred and/or when significant milestones have been achieved in a funded project.

Credits under the DMTC program are recorded when amounts can be reasonably estimated and receipt is reasonably assured. Government assistance may be overstated if the underlying project is determined to be ineligible or if certain costs claimed are determined to be ineligible.

(d) Development costs

Distinguishing the research and development phases of internal development projects and determining whether the recognition requirements for the capitalization of development costs are met requires judgement. After capitalization, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalized costs may be impaired.

(e) Classification of financial arrangements

The Company has entered into complex financing arrangements in the form of conditionally repayable government grants with below-market interest rates. Management uses significant judgement in selection and application of accounting policies related to these arrangements.

(f) Deferred development funding

The Company has entered into an arrangement with a third party whereby the third party has provided Bluedrop with funding towards development costs under Canada's Industrial and Regional Benefits (IRB) Policy in a non-exchange transaction. While the funding is not provided directly from government, the substance of the transaction is an indirect form of government assistance with the third party acting as an intermediary between a Government agency and Bluedrop. As such, the arrangement has been accounted for in accordance with IAS 20 - Accounting for Government Grants and Disclosure of Government Assistance.

Estimation uncertainty

The following are significant estimates used in recognition and measurement of assets, liabilities, income and expense. The actual results may differ from these estimates:

(a) Fair value of financial liabilities

The Company has received long term debt financing at below-market interest rates and through issue of convertible notes. The fair value of these financial liabilities is determined using discount rates expected to be incurred on similar debt in a fair market. Management has exercised judgement in estimating the applicable discount rate used in measuring the fair value of financial liabilities at below-market interest rates.

(b) Impairment of non-financial assets

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating units, based on expected future cash flows, and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

(c) Revenue recognition

Revenue from services contracts is recognized on a percentage of completion basis, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Changes to the estimate of percentage complete or estimated costs to complete could have a material impact on the carrying values of work in progress or deferred revenue and a material impact on future revenue.

(d) Share-based compensation

Management has made certain estimates and assumptions when calculating the fair value of share options. The significant assumptions include estimates of expected volatility, expected life and expected risk-free rate of return. Management also makes certain assumptions with respect to the number of options expected to vest. Changes in these assumptions may result in a material change to share-based compensation expense.

NON-GAAP FINANCIAL MEASURES

This MD&A includes non-GAAP financial measures. Non-GAAP measures do not have a standardized meaning prescribed by the Company's GAAP and therefore should not be compared with similar measures presented by other companies. Management has provided these measures as we believe they are useful supplemental information to users of the Company's financial statements and MD&As. These measures should not be used as an alternative for performance measures calculated in accordance with GAAP.

(a) Backlog

Backlog is a non-GAAP measure that represents the expected value of orders we have received but have not yet executed. The Company considers an item part of backlog when we have a legally binding commercial agreement with a client that includes enough detail about each party's obligations to form the basis for a contract or an order. Some contracts are executed over a long-term period and are subject to renewal periods. A contract renewal item is only included in backlog when the customer has authorized the renewal.

RISKS

The Company and its business are subject to a number of risks and uncertainties. The primary risks and uncertainties are described below.

Customer risk

The Company's products and services are sold directly to governments or governmental entities and to original equipment manufacturers and training integrators which have contracts with governments. These sales are subject to specific additional risk, such as delays in funding, termination of contracts or sub-contracts at the convenience of the government, termination, reduction or modification of contracts or sub-contracts in the event of changes in the government's policies or as a result of budgetary constraints, and increased or unexpected costs resulting in losses or reduced profits under fixed price contracts.

The Company's business strategy includes plans to diversify sources of revenue by expanding its product and service offerings in the Bluedrop Training and Simulation business and by expanding its sales channels and courseware content portfolio for the Bluedrop Learning Networks business.

Credit risk

Credit risk arises from the potential that a customer or counterparty will fail to meet its contractual obligations. Concentration of credit risk may arise from exposure to a single debtor or to a group of debtors having similar characteristics, such as their ability to meet their obligations, or their expectation to be similarly affected by changes in economic or other conditions. The Company utilizes credit evaluation, approval and monitoring processes intended to mitigate potential credit risks with respect to trade receivables.

The Company's maximum exposure to credit risk, with respect to accounts receivable and unbilled work in progress corresponds to the carrying value. At September 30, 2016, approximately 80% of trade receivables were due from five customers (September 30, 2015 – 80% from six customers). In accordance with contract terms, the Company bills certain customers in advance of the completion of work and records such billings as deferred revenue.

An allowance for doubtful accounts is established at each balance sheet date based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The allowance for doubtful trade accounts receivable at September 30, 2016 was nil (September 30, 2015 - $8,374). At September 30, 2016, the Company's trade accounts receivable included amounts over 90 days old totaling $50,356 (September 30, 2015 – $130,289) which were not considered to be impaired and therefore not included in the allowance for doubtful accounts.

Recruitment and retention risks

Bluedrop's continued growth and success is largely dependent on the experience, abilities and dedication of its management and technical personnel. As the Company expands in areas and activities requiring additional expertise, it will require additional management and technical personnel. The market is tight and competition is intense for highly-skilled management, technical, research and development people and other employees to support the Company's growth. Loss of the services of any of its key officers or employees, or failure to recruit additional key executive and technical personnel may adversely affect the Company's ability to promptly satisfy its customer needs and may therefore impede the Company's growth objectives.

There can be no assurances that Bluedrop can retain its current key officers and employees or attract and retain additional key employees to support the Company's growth. The loss of certain key employees could have a significant impact on the Company's business, results of operations and financial condition.

OUTLOOK

During 2016, the Company took various steps to strengthening the balance sheet through improved operations and entering into several significant financing arrangements. It is our intention to reduce or eliminate the last of the expensive debt taken on to fund the Atlantis acquisition. We remained fully committed to our product strategy and our goal of transforming Bluedrop into more of a product and proprietary technology based business while still growing its services business. We expect this transformation to take some time to be fully realized and we do not anticipate major unit volumes or major service volumes to be realized within the first year of launch. We are targeting key initial accounts to validate the products and platform services in 2017 that will add revenues but more importantly provide the industry validation needed to scale the opportunities.

The Bluedrop Training and Simulation business unit continued to yield strong revenues and gross margins throughout 2016 and made significant investments in development of simulation technology. The $2.4 million of research and development in 2016 resulted in significant advances in developing the Chinook based, Boeing Rear Crew Mission Trainer ("RCMT"). This is a unique training device that allows rear crew operators to rehearse missions and specific tasks in a virtual and augmented reality environment. The platform is designed to allow for further adaptations of the RCMT and part task trainers to other Original Equipment Manufacturer ("OEM") platforms for additional rotary wing or fixed wing applications for both defence or civilian search and rescue trainers applications at a much lower cost than the initial Chinook unit. Our objective is to create a new class of rear crew complete mission trainers and rear crew task trainers adaptable across multiple platforms and markets. By combining emerging technologies with strong OEM partnerships and market access, we are optimistic in our pursuit of significant global opportunities.

The Learning Networks business unit continued to build more capabilities and features into its Bluedrop360 platform as it invested heavily in research and development in 2016. The new platform was successfully implemented for an occupational health and safety compliance application in Canada where it now provides regulators, employers and employees a secure web based tracking system for multiple users and multiple certification validations. The platform has also been successfully deployed in a workforce skills enhancement program in the US where it is reducing delivery costs and improving outcomes for job seekers. The development of this proprietary technology is a key strategic focus for the business unit and while it has had some very positive initial customer experiences the long sales cycle and the early adopter nature of the market has made us focus even more on the larger accounts and making sure the end users value proposition is well demonstrated. Fiscal year 2017 will be a pivotal year for the product strategy in both business units.