



## **ANNUAL INFORMATION FORM**

**For the Year Ended September 30, 2016**

**January 30, 2017**

**BLUEDROP PERFORMANCE LEARNING INC.**

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## **PRELIMINARY NOTES AND CAUTIONARY STATEMENTS**

### **Date of Information**

In this Annual Information Form ("AIF"), information is given as of September 30, 2016 unless stated otherwise.

### **Currency and Exchange Rates**

All currency references in this AIF are in Canadian dollars unless otherwise indicated. Reference to "US dollars" or the use of the symbol "US\$" refer to United States dollars.

### **Forward-Looking Information**

This AIF may contain "forward-looking information", as defined in applicable Canadian securities legislation. Forward-looking information typically contains statements with words such as "plans", "expects", "anticipates", "budgets", "forecasts", "strategy", "goals", "objectives", "could", "would", "should", "may", "might", "intends", "believes", "potential", "target", "targeting" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information is based on the current estimates, opinions and beliefs of Bluedrop (as defined herein), as well as various assumptions and information currently available to Bluedrop. Although Bluedrop believes the expectations expressed in such forward-looking information are based on reasonable assumptions, there can be no assurance that such forward-looking information will prove to be accurate, and actual results and future events could differ materially from those anticipated in such information. Forward-looking information in this AIF includes, among other things, statements regarding Bluedrop's business objectives and growth strategies, expected developments, future payments of dividends, market conditions in the economy generally and Bluedrop's marketing strategy. Forward-looking information is based on a number of factors and assumptions which have been used to develop such information but which may prove to be incorrect, including, but not limited to, assumptions in connection with the continuance of Bluedrop and its subsidiaries as a going concern and general economic and market conditions.

Factors that could cause actual results to differ materially from those in forward-looking information include general economic and business conditions, development and operating risks, uninsurable risks, competition, government regulation, losses and write-downs, restrictions contained in future loan facilities, dependence on key employees, personnel losses, failure of plant, equipment or process to operate as anticipated, power outages, accidents and labour disputes. For additional information with respect to risk factors applicable to Bluedrop, reference should be made to the section in this AIF entitled "*Description of the Business – Risk Factors*", as well as Bluedrop's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, including, but not limited to, Bluedrop's annual and interim management's discussion and analysis.

Any financial outlook or future-oriented financial information in this AIF, as defined by applicable securities legislation, has been approved by management of Bluedrop as of the date of this AIF. Such financial outlook or future-oriented financial information is provided for the purpose of providing information about management's current expectations and

plans relating to the future. Readers are cautioned that such outlook or information should not be used for purposes other than for which it is disclosed in this AIF.

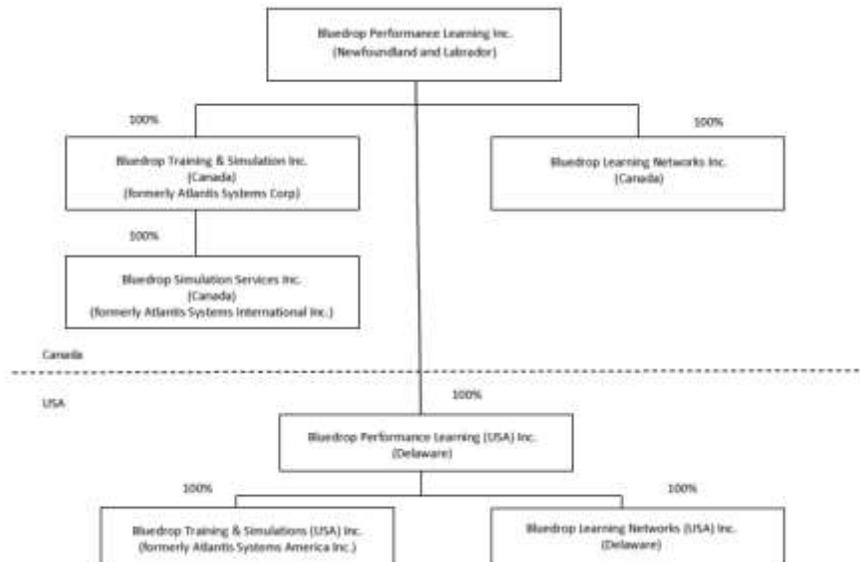
The forward-looking information contained in this AIF is made as of the date of this AIF and Bluecrop does not undertake to update publicly or revise the forward-looking information contained in this AIF, whether as a result of new information, future events or otherwise, except as required by applicable securities laws.

## CORPORATE STRUCTURE

Bluecrop Performance Learning Inc. ("**Bluecrop**" or the "**Corporation**") was formed on January 26, 2012 by amalgamation between Bluecrop Performance Learning Inc. (formerly Serebra Learning Corporation ("**Serebra**")) and Blue Drop Inc. ("**Amalco**") pursuant to the provisions of the *Corporations Act* (Newfoundland and Labrador) ("**NLCA**") in connection with the reverse takeover of Serebra. Immediately prior to this amalgamation, also on January 26, 2012, Amalco was formed by amalgamation between Serebra Acquisition Corp., a subsidiary of Serebra, and Blue Drop Inc. ("**Former Blue Drop**"), both corporations organized under the NLCA. Serebra (formerly Firstclass Systems Corporation), was an Alberta corporation incorporated on February 9, 1987 under the *Alberta Business Corporations Act*, which was continued pursuant to the NLCA on January 26, 2012 as "Bluecrop Performance Learning Inc."

Bluecrop's common shares ("**Common Shares**") commenced trading on the TSX Venture Exchange ("**TSXV**") on January 27, 2012 under the symbol "BPL". Bluecrop's head and registered offices are located at 18 Prescott Street, St. John's, Newfoundland and Labrador, A1C 3S4.

The following diagram sets out the intercorporate relationships among Bluecrop's subsidiaries as of September 30, 2016, including the percentage ownership of voting securities and the jurisdiction of formation or existence of each subsidiary:



## GENERAL DEVELOPMENT OF THE BUSINESS

Bluedrop is an innovator in workplace training for individuals, corporations, military personnel and the public sector. Bluedrop is transforming the workplace globally by designing, developing and delivering practical, actionable and affordable training content and delivery platforms that improve individual and overall performance of organizations. These products and services are offered through two business units, the Training and Simulation Business and the Learning Networks Business, as described in more detail in this AIF under the heading "*Description of the Business*".

The following is an overview of the significant acquisitions and developments in the Corporation's business over the last three financial years.

### **Plan of Arrangement with Atlantis**

On December 31, 2013, through a plan of arrangement (the "**Arrangement**") under the *Canadian Business Corporations Act* ("**CBCA**"), the Corporation acquired Atlantis Systems Corp. ("**Atlantis**") and its three subsidiaries, Atlantis Systems International Inc., Denbridge Digital Limited and Atlantis Aerospace Ventures Inc., through the Corporation's wholly owned subsidiary 8682259 Canada Inc. ("**AcquisitionCo**"). Pursuant to the Arrangement, AcquisitionCo acquired all of the issued and outstanding common shares of Atlantis in exchange for aggregate consideration of \$1,000,000, or approximately \$0.0276 per common share of Atlantis, and Atlantis became a wholly-owned subsidiary of Bluedrop. As part of the Arrangement, Bluedrop also assumed a convertible debenture issued by Atlantis to ComVest Capital, LLC ("**ComVest**") in the amount of \$2,500,000. Immediately after the Arrangement, Atlantis repaid \$1,000,000 of the debt owed to ComVest, leaving Bluedrop responsible for the outstanding amount of \$1,500,000. This debt has since been repaid, as further described below under the heading "*Debt Repayment and Financing*".

The Arrangement was completed in order to expand the Corporation's defence and aerospace business as both the Corporation and Atlantis operated in the same market space with a similar customer base.

The Corporation financed the Arrangement through the issuance of a \$3,000,000 unsecured convertible debenture to Difference Capital Financial Inc. on December 30, 2013 ("**Difference 2013 Debenture**"), as further described below under the heading "*Prior Sales*". Bluedrop amended the Difference 2013 Debenture as of December 11, 2015 to extend its maturity date to December 30, 2017.

### **2014 Restructuring**

The Corporation undertook a reorganization of its business units to achieve greater operating efficiencies which was completed as of October 1, 2014.

For the Training and Simulation Business (defined below), the two operating entities of Atlantis, being Atlantic Systems Corp. and Atlantis Systems International Inc., were renamed Bluedrop Training & Simulation Inc. and Bluedrop Simulation Services Inc., respectively, effective September 30, 2014 and the Canadian assets used in the Training and Simulation Business were transferred from Bluedrop to Bluedrop Training & Simulation Inc.

For the Learning Networks Business (defined below), the Corporation incorporated a new wholly-owned subsidiary pursuant to the CBCA, named Bluedrop Learning Networks Inc., effective September 30, 2014 and the assets of the Learning Networks Business were transferred from Bluedrop to Bluedrop Learning Networks Inc. In the United States, the Corporation incorporated a subsidiary named Bluedrop Learning Networks (USA) Inc. in Delaware which is inactive.

In the United States, the Corporation incorporated a subsidiary named Bluedrop Performance Learning (USA) Inc. as a holding company in Delaware which is inactive.

Please see the corporate chart above under the heading "*Corporate Structure*" for a graphical depiction of the Corporation following completion of this restructuring.

### **Debt Repayment and Financing**

On December 30, 2014, Bluedrop concluded an agreement with ComVest pursuant to which Bluedrop fully and finally satisfied all indebtedness owed to ComVest by Bluedrop's subsidiary, Bluedrop Training & Simulation Inc., for an aggregate payment of \$1,125,000 (the "**ComVest Repayment**"). Prior to the ComVest Repayment, the outstanding indebtedness of Bluedrop Training & Simulation Inc. to ComVest was approximately \$1,600,000 in principal and interest, which was payable on June 30, 2015.

During the year ended September 30, 2015, Bluedrop completed two debt financings. First, on February 13, 2015, Bluedrop issued an unsecured convertible debenture to Difference Capital Financial Inc. ("**Difference**") in the principal amount of \$625,000 (the "**Difference 2015 Debenture**"). The Difference 2015 Debenture is convertible at a conversion price of \$0.15 per Common Share for up to 4,166,667 Common Shares, has a maturity date of December 30, 2016 and bears interest at the rate of 14% per annum.

Difference partially converted \$225,000 of the principal amount of the Difference 2015 Debenture through two partial conversions completed in September 2016 and December 2016, each in accordance with the terms of the Difference 2015 Debenture, and acquired an aggregate of 1,500,000 Common Shares. Difference converted the remaining \$400,000 in principal into 2,666,667 Common Shares at \$0.15 per Common Share on December 30, 2016 and so the Difference 2015 Debenture has been paid in full and cancelled.

On February 17, 2015, the Corporation entered into a loan agreement with Rizbollo Holdings Limited ("**Rizbollo**"), a holding company controlled by Emad Rizkalla, President and Chief Executive Officer and a director of Bluedrop, to borrow the principal amount of \$600,000 from Rizbollo on an unsecured basis (the "**Rizbollo Loan**"). The Rizbollo Loan, which had an 18 month term and bore interest at the rate of 16% per annum, was prepaid in full without additional interest, bonus or penalty on or about March 31, 2016.

On March 30, 2015, the Corporation amended and restated its royalty purchase agreement with Grenville Strategic Royalty Corp. ("**Grenville**") dated January 10, 2014 to increase the funding available to Bluedrop from \$1,000,000 up to \$1,650,000 ("**Royalty Agreement**"). The incremental funding of \$650,000 was available to be drawn down by Bluedrop prior to December 31, 2015, and was subject to a royalty payment of between 1 and 1.4% of Bluedrop's revenues. The Corporation did not draw down any of the incremental funding.

The Royalty Agreement was further amended on or about July 29, 2016 by an amending agreement which increased the monthly minimum royalty payment for 11 months in exchange for Bluedrop being granted the right to extinguish the royalty at any time upon payment of an agreed fixed buyout amount to Grenville.

On September 30, 2016, the Corporation secured a \$3.0 million term loan with the Royal Bank of Canada to preserve working capital growth and to fund its maturing debt obligations during the next two fiscal years. The loan bears interest at 4.09% per annum and matures on September 30, 2019. Monthly blended payments on the loan are \$30,000 in the first twelve months and \$120,357 per month during the following twenty-four months. Proceeds of the loan are held in a Guaranteed Investment Certificate and held by the Royal Bank of Canada under a cash collateral agreement as additional security for the new loan, until a decision is made regarding conversion or repayment of the Difference 2013 Debenture.

### **Boeing Development Agreement**

On July 8, 2015, Bluedrop announced a partnership between The Boeing Company ("**Boeing**") and Bluedrop Training & Simulation Inc. pursuant to which the parties have given a commitment to develop the next generation rear crew trainer for the CH-47 Chinook ("**Chinook**") helicopter, along with a five year commitment to support development and ongoing international sales. The commitment includes a contribution to Bluedrop of cash amounts totaling US\$2.3 million, the transfer of a certain intellectual property license associated with the specific technical characteristics of the Chinook platform, engineering support from the Boeing training and simulation group during the development phase, and a five-year commitment to support the ongoing sales and marketing of the new product within the Boeing global supply chain. Bluedrop expects the initial development phase to take between 18 and 24 months to build a full sized virtual reality rear crew trainer based on intellectual property supplied by Boeing.

In June 2016, the Corporation announced that a major milestone had been completed in the development of the rear crew trainer with the integration of the Corporation's Canadian-built fuselage with Boeing's cockpit training simulator.

### **Subsidiary Restructuring**

Effective December 1, 2015, the Corporation undertook a reorganization of its U.S. subsidiary Atlantis Systems America Inc. This included changing the subsidiary's name to Bluedrop Training & Simulation (USA) Inc. and transferring its ownership from Bluedrop Simulation Services Inc. to Bluedrop Performance Learning (USA) Inc. Bluedrop Training & Simulation (USA) Inc. is an inactive subsidiary.

### **Normal Court Issuer Bid and Automatic Share Purchase Plan**

On March 22, 2016, the Corporation announced that the TSXV accepted its notice of intention to make a normal course issuer bid ("**NCIB**") to purchase up to 2% of the total issued and outstanding Common Shares in any 30 day period up to a maximum of an aggregate of 4,949,330 Common Shares over a 12 month period. The NCIB commenced in March 31, 2016 and will end on March 30, 2017. As of September 30, 2016, two tranches of the NCIB had been approved by the Board, with the number of share purchases under each tranche not

exceeding: (a) one million Common Shares or (b) \$150,000. A third tranche was approved and announced on October 19, 2016 on the same terms as the first two tranches.

On March 22, 2016, the Corporation also announced that it had entered into an automatic share purchase plan with Haywood Securities Inc. ("**Haywood**") in order to facilitate repurchases of Common Shares under the NCIB at times when the Corporation would ordinarily not be permitted to do so due to self-imposed blackout periods.

All Common Shares purchased under the NCIB are purchased on the open market through the facilities of the TSXV by Haywood on behalf of the Corporation and surrendered by the Corporation to its transfer agent for cancellation.

As of September 30, 2016, 1,436,000 Common Shares had been repurchased under the first two tranches of the NCIB, with 969,500 of those Common Shares cancelled as of that date. The 466,500 Common Shares repurchased in September were cancelled by the Corporation's transfer agent, Computershare Investor Services Inc., on October 6, 2016 such that the total 1,436,000 Common Shares repurchased under the NCIB were cancelled as of that date.

### **Contract Under the National Shipbuilding Program**

On April 28, 2016, the Corporation announced that its subsidiary, Bluedrop Training & Simulation Inc., was awarded a \$15 Million contract by Fleetway Inc. and Irving Shipbuilding under the National Shipbuilding Program for the design of training and simulation software for the Arctic Offshore Patrol Ships ("**AOPS**").

## **DESCRIPTION OF THE BUSINESS**

### **General**

The Corporation is in the business of designing, developing and delivering workplace training for individuals, businesses, military personnel and the public sector. The Corporation's development and delivery of training programs and platforms is currently divided into two business units: (i) for the defence and aerospace industry ("**Training and Simulation Business**") and (ii) for the workplace ("**Learning Networks Business**").

As of September 30, 2016, the Corporation had 163 employees and 18 contractors working in three offices in Canada.

### **Training and Simulation Business**

The Corporation's Training and Simulation Business provides custom courseware development, training products, low cost simulation and resource augmentation solutions to improve the safety, productivity and efficiency of military and civil personnel.

For the financial year ended September 30, 2016, the Training and Simulation Business earned revenues of \$19,966,926 (2015: \$17,418,392).

A summary of the products and services provided in the Corporation's Training and Simulation Business follows:

### *Custom Courseware Development*

After the purchase of aircrafts, ships, and land vehicles by the militaries and coast guards, specialized training is required for the users. The training requirements vary from mission, maintenance, and operator training. The training that Bluedrop provides can be categorized as two forms:

- (a) *Custom Courseware.* Bluedrop specializes in developing and engaging learning solutions for interactive instructor-led training, computer-assisted instruction and computer-based training; and
- (b) *Virtual Task Training and 3D Modeling.* Using a range of commercially available hardware and software applications, Bluedrop can provide its clients custom development and delivery of products and systems for training or operations support. These products use three dimensional modeling and simulation technologies to create user scenarios to guide individuals through training and operating procedures. Bluedrop can produce three dimensional models using a variety of modeling software such as Avatar, 3D Studio Max, Maya and Modo. These models can then be presented to the user through gaming software platforms such as Unity3D, Unreal and ModestTree.

### *Specialized Aerospace Simulation Training Products*

As a result of custom courseware services provided to the Canadian military and other organizations, Bluedrop recognized that an opportunity existed to provide enhanced training products at low-cost. These training products would target personnel training that was not currently serviced by the existing high-technology, high-cost simulation market. Bluedrop developed a strategy to leverage existing relationships with the Canadian military, while also developing relationships with original equipment manufacturers ("**OEM**") such as The Boeing Company, BAE Systems Inc., Lockheed Martin Canada, and tier-one training integrators such as CAE Inc. or Thales Canada Inc., in order to position low-cost, high-value procedural simulation trainers.

Bluedrop's Training and Simulation Business has designed, manufactured and installed several procedural training solutions globally. It also has a significant long term in-service support contract with a customer for seven simulation training devices that have been developed and procured. Also, see "*General Development of the Business – Boeing Development Agreement*" for information on Bluedrop's development agreement with Boeing.

### *Learning Content Management System and Learning Management System ("**LCMS/LMS**")*

The Corporation's Training and Simulation Business has developed LCMS and LMS products (Learning Logics™ LMS/LCMS) that provide customers with the ability to manage learning content and associated learning records across learning programs. Bluedrop also uses the LCMS offering to develop training internally as part of our content authoring capabilities and processes. Bluedrop continues to invest in the Learning Logics platform for use in major projects such as the AOPS.

### *Resource Augmentation*

The Corporation's Training and Simulation Business provides staff to clients on a contract basis to assist on specific projects where additional staffing is required. Bluedrop's Training and Simulation Business currently has three significant engagements to provide instructional design, e-learning development and training in-service support services, as detailed below:

1. Sikorsky Maritime Helicopter Training Centre ("**MHTC**"): Bluedrop has 32 resources deployed at MHTC to provide learning support services to Sikorsky Aircraft Corporation ("**Sikorsky**"). In June 2016, this agreement was extended for a further 3 years for Bluedrop Training & Simulation Inc. to continue to provide instructors and training courseware for pilots learning to operate Canada's new fleet of 28 CH-148 Cyclone maritime helicopters.
2. Calian Army Learning Support Centre ("**ALSC**"): Bluedrop has partnered with Calian Ltd. ("**Calian**") on the Gagetown project to provide 18 full time resources that are working at ALSC in Gagetown, New Brunswick. On September 20, 2016, the Corporation announced that it has received a subcontract to continue the development and support of courseware projects by providing e-Learning production, distribution and related support services.
3. Lockheed Martin Canada: Lockheed Martin Canada is currently contracted with the Corporation's Training and Simulation Business for the provisioning of one full time resource and two subcontractors that are working at the Maritime Advanced Training and Test Site in Dartmouth, Nova Scotia.

#### *Specialized Skill and Knowledge*

The Corporation's Training and Simulation Business has acquired specific subject matter expertise for military operational and maintenance procedural training. This knowledge resides within Bluedrop's sales and delivery groups and allows Bluedrop to be fully familiar when representing client requirements and to deliver against such requirements. While this knowledge is currently specifically aligned to military subject matter, the broader knowledge of training for critical procedures can be applied to other industries where there are critical operational and maintenance training requirements. This knowledge is overlaid with e-learning design and development knowledge that is specific to the e-learning market.

#### *Competitive Conditions*

The Corporation's Training and Simulation Business currently has a privileged competitive position within the Canadian defence market resulting from the acquisition of the business of Atlantis in December 2013. The Corporation is currently the only full-service e-learning company that has the security clearances, resume, relationships, and capabilities to provide training solutions either directly to the end customer, OEM, Department of National Defence ("**DND**") or to tier 1/2 training integrators.

#### *New Products*

The Corporation's Training and Simulation Business continues to make investments in the Learning Logics LCMS/LMS product to provide additional enhancements as well as to accommodate specific courseware development requirements associated with the AOPS program. In addition, with the investment from Boeing to support the development of the

Rear Crew Mission Trainer virtual simulation product, the Training and Simulation Business is developing its simulation skillsets and establishing relationships with technology vendors. This is increasing the Corporation's overall simulation product development capacity which will allow the business to offer additional products to meet market requirements.

### *Components*

Bluedrop's Training and Simulation Business has resale and partner teaming contracts in place with several simulation providers that support the procedural simulation training offerings. A key resale relationship with Flight Safety International Inc. supports Bluedrop's ongoing business relationship with KF Aerospace (formerly Kelowna Flightcraft). The Training and Simulation Business is also pursuing other relationships with significant technology vendors, such as Rockwell Collins, that will further enhance the Corporation's collective offering to the training simulation market.

### *Intangible Properties*

The Corporation's Training and Simulation Business has inherent value in the historical business conducted under both the Atlantis and Bluedrop brands. As well, the investment in security clearances and relationships that have been established within the Canadian military also creates value to Bluedrop. The Learning Logics™ product also has intellectual property value.

### *Cycles*

The military-specific business of the Corporation is dependent on major Canadian government military programs and procurement cycles. The Corporation's Training and Simulation Business is engaged in all new military programs currently identified. As well, the Corporation works within existing programs to extend and expand training requirements and opportunities. In some instances, smaller training development opportunities are also tied to the annual government budgeting cycle.

### *Economic Dependence*

The Corporation's Training and Simulation Business has several long-term customer contracts such as those with Sikorsky, Allied Wings Group of Companies, Calian, and Fleetway Inc. Each of the contracts with these customers fall under umbrella agreements with the Government of Canada. For the year ended September 30, 2016, 73% of the revenues of the Training and Simulation Business were generated from three customers. These are service-based contracts such that if they were to be terminated, Bluedrop's costs would also decrease. Nonetheless, Bluedrop's Training and Simulation Business is substantially dependent on at least two service-based contracts to sustain its current business in this area.

### *Changes to Contracts*

Modifications and extensions to contracts will occur each fiscal year in the normal course of business. None of these individual contract changes, taken on their own, are expected to substantially affect the overall revenue of the Training and Simulation Business unit.

## *Employees*

As at September 30, 2016, Bluedrop's Training and Simulation Business had 107 employees and seven contractors.

## **Learning Networks Business**

The Corporation's Learning Networks product offerings include features that allow training administrators of a customer to add and monitor users, including monitoring course completion and any test results by users. These features are useful for corporate, government and other institutional customers that provide training to their employees or members. Additional features include web based networking functions that allow users to communicate with each other, as well as networking with current or potential employers. In the case of potential employers, users can provide them with access to the training records to provide a record of course completion and any applicable test results.

The Corporation's Learning Networks Business provides learning management solutions and content to private and public sector customers via the *Coursepark™* and the Bluedrop360 platforms. *Coursepark™* is an innovative cloud-based learning management solution ("LMS") for individuals, corporation and other organizations. Following the commercial release of *Coursepark™* in 2011, revenues have been generated from custom courseware development, licensing and subscription fees, consulting services and the sale of commercial off-the-shelf courses.

The *Coursepark™* platform was developed from 2008 to 2010 by Bluedrop, based on over 12 years of experience in providing custom-courseware to clients with traditional learning management systems. Currently, *Coursepark™* provides users with access to approximately 5,000 online e-courses that are available for purchase or assignment at median rates per use of approximately \$30. Courseware content available on the *Coursepark™* website includes a number of commercially available training courses acquired from third party courseware developers, as well as a number of courses developed by Bluedrop as part of its custom courseware business. The content comes from experts in their areas. The number of courses is growing and is including more classroom-based training events around North America. In addition, customers can build their own courses either on their own, or in consultation with Bluedrop, and post those courses to the *Coursepark™* website.

During the year ended September 30, 2016, the Learning Networks Business continued to invest in the Bluedrop360 platform that was introduced to market last fiscal year. Additional investment in core Bluedrop360 functionality resulted in the development of a Training Provider Module and an Employer Module that provides those stakeholders with the ability to offer and manage training to their relative students/employees. In addition, the Learning Networks product development team developed a training provider marketplace for desktop as well as a mobile application to supplement the core Bluedrop360 solution. Additional investments in on-the-job-training (OJT) and competency management modules were also made during the year. This resulted in the design and development of an OJT mobile application for Android and iOS with links back to the core Bluedrop360 platform's Employer and Competency Management Modules.

For the financial year ended September 30, 2016, the Learning Networks Business earned revenues of \$4,863,438 (2015: \$3,754,460).

### *Specialized Skill and Knowledge*

Bluedrop's Learning Networks Business has developed specific knowledge associated with the extended enterprise ("EE") learning management market. The EE market focuses on providing an enterprise grade online learning solution to help organizations manage training for users that are outside of their organization. One specific vertical market focus that the Learning Networks Business has adopted is within the workforce development area, where Bluedrop works with governments and organizations to provide distributed web-based learning solutions to help individuals obtain the required skills to become employable. The Learning Networks Business has acquired specific knowledge associated with the workforce development market from a sales, marketing and solution development perspective.

The Learning Networks Business has acquired specific knowledge and skills around the e-learning industry overall within custom e-learning content design/development and web-based learning management system.

### *Competitive Conditions*

Bluedrop's Learning Networks Business is actively involved in redefining the market for workforce development training as we are positioning the Bluedrop Learning Networks platform as a scalable training solution that leverages the economic benefits associated with e-learning within the workforce development vertical market. Competition within this market comes from more traditional learning providers such as the Canadian and United States vocational college system as opposed to other direct e-learning providers.

### *New Products*

The Corporation's Learning Networks Business has developed a web-based platform to deliver and manage online and classroom based training within the EE learning market. Product development efforts are ongoing to further enhance the offering and introduce new modules to meet the market requirements identified within the vertical market of workforce development. During the year ended September 30, 2016, the Learning Networks Business completed the development of Bluedrop360 product enhancements to address the Canadian occupational health and safety compliance tracking market. These solutions are designed to distribute and manage offline occupational health and safety training events to a workforce entity. Bluedrop expects that these developments will lead to other opportunities for the Corporation's Learning Networks Business within this vertical market. In addition, Bluedrop has developed additional functionality to provide tracking of training for apprentices throughout their apprenticeship. Additional mobile products were also developed to support the core learning management solutions. The mobile training marketplace and personal training passport application was developed on the Android, iOS, and Blackberry platforms. As well, the mobile OJT and Competency Management application was developed for the Android and iOS platforms.

### *Components*

The Corporation's Learning Networks Business works with key best-of-breed technology vendors such as Rustici Software Inc., Amazon Web Services, Heroku and 2<sup>nd</sup> Quadrant Ltd. to integrate with our core application that provides consolidated learning solutions for our clients.

### *Intangible Properties*

As Bluedrop continues to invest in research and development to create differentiated product offerings, inherent long lasting intellectual property value is created. The Learning Networks Business currently has registered the *CoursePark™* brand to represent its consumer web-based e-learning product offerings. The Bluedrop360 brand was established in 2015 as a way to reposition an enterprise-grade e-learning solution within the EE learning management market. In addition, other adjacent product offerings and brands are being developed (such as an OJT and Competency Management module) that will also require additional trademark and brand protection as Bluedrop moves forward with the research and development of these product offerings.

### *Cycles*

When dealing specifically within government procurement, Bluedrop's Learning Networks Business is subject to government budgeting and funding cycles. When dealing with private entities, there are no identifiable business cycles.

### *Employees*

As at September 30, 2016, the Corporation's Learning Networks Business had a total of 43 employees and 11 contractors.

### *Foreign Operations*

The Corporation's Learning Networks Business continues to engage in business development within the Canadian workforce development market as well as international markets to offer complex competency management frameworks. Bluedrop currently has two major workforce development clients in the United States and are actively pursuing other opportunities. In 2016, the Learning Networks Business also entered the Middle Eastern market with distributed learning solutions to support non-government organizations operating in the region. We are also expanding our market reach internationally to further develop opportunities for compliance-based OH&S training management solutions outside of Canada.

### **Risk Factors**

The Corporation's business is subject to a number of risks and uncertainties. The primary risks and uncertainties are described below.

*Bluedrop's revenue and operating results can be difficult to predict and can fluctuate, which may harm results of operations*

Bluedrop's revenue is difficult to forecast and may fluctuate from quarter to quarter. In addition, Bluedrop's operating results may not follow any past trends. The factors affecting Bluedrop's revenue and results, many of which are outside of Bluedrop's control, include:

- limited number of long-term purchase commitments from customers and the risk that those contracts will not lead to revenues as expected or at all;

- competitive conditions in the industry, including Bluedrop's strategic initiatives or Bluedrop's competitors, new products or services, product or services announcements and changes in Bluedrop's pricing policy or Bluedrop's competitors;
- market acceptance of Bluedrop's products and services;
- Bluedrop's ability to maintain existing relationships and to create new relationships with channel partners;
- varying size, timing and contractual terms of orders for Bluedrop's products and services, which may delay the recognition of revenues;
- the discretionary nature of purchase and budget cycles of Bluedrop's end users and changes in their budgets for, and timing of, learning and training related purchases;
- the length and variability of the sales cycle for Bluedrop's products;
- Bluedrop's strategic decisions or Bluedrop's competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- product stability and security could be compromised;
- recruitment and retention of management and other personnel is critical to Bluedrop's ability to develop, market and support its products and services as planned;
- general weakening of the Canadian economy resulting in a decrease in the overall demand for learning and training related products and services or otherwise affecting the capital investment level of businesses with respect to Bluedrop's simulator training systems; and
- timing of product development and new product initiatives.

Because Bluedrop's revenue is dependent upon a relatively small number of customers, even minor variations in the rate and timing of conversion of its sales prospects into revenue could cause Bluedrop to plan or budget inaccurately, and those variations could adversely affect Bluedrop's financial results. Delays, reductions in the amount or cancellations of end-users' purchases would adversely affect Bluedrop's business, results of operations and financial condition.

Any of the foregoing factors could have a material adverse effect on Bluedrop's business, results of operations or financial condition.

*Failure to manage Bluedrop's business or growth successfully may adversely affect its operating results*

Bluedrop's ability to manage its business will be substantially dependent upon Bluedrop's ability to efficiently and effectively allocate resources to conduct research and development, launch new products and software in a timely and efficient manner, provide sales and

marketing activities, provide adequate financial management and provide customer support services. Accordingly, Bluedrop's future results of operations will depend on the continuing ability of Bluedrop's officers and other key employees to conduct business effectively and to improve operations. Bluedrop's ability to support the growth of its business will be substantially dependent on having in place highly-trained employees and sufficient internal and third-party resources. Failure to manage successfully any such business shortfalls may have a material adverse effect on Bluedrop's business, results of operations and financial condition.

*Bluedrop's success depends on its ability to develop new products and services and enhance its existing products and services*

To keep pace with technological developments, satisfy increasingly sophisticated customer requirements and achieve market acceptance of its products and services, Bluedrop must enhance and improve existing products and services and also continue to introduce new products and services. If Bluedrop is unable to successfully develop new products and services or enhance and improve its existing products and services or if Bluedrop fails to position and/or price its products and services to meet market demand, Bluedrop's business and operating results will be adversely affected.

Accelerated product introductions and short software life-cycles require high levels of expenditures for research and development that could adversely affect Bluedrop's operating results. Further, any new products or software Bluedrop develops could require long development and testing periods and may not be integrated in a timely manner or may not achieve the broad market acceptance necessary to generate significant revenue.

*Weaker than expected market acceptance of new products and services or new versions of Bluedrop's current products and services*

Bluedrop's business may be adversely affected if its new products and services or new features do not achieve acceptance among customers. Bluedrop has developed and is continuing to develop products and services incorporating new technology and will pursue those products and services that Bluedrop expects to have the best chance for success based on Bluedrop's expectations of future market demand. However, there can be no assurances that development-stage products and software will be successfully completed or, if developed, will achieve significant customer acceptance. If Bluedrop is unable to successfully define, develop and introduce competitive new products and services, and enhance existing products and services, Bluedrop's business, financial condition and results of operations could be materially adversely affected.

*Bluedrop is dependent on the expansion of its current, and development of new, distribution channels*

Bluedrop sells its products and services directly to its customers and to parties with whom Bluedrop has strategic relationships. Bluedrop expects to continue to utilize these relationships to sell to companies and organizations that will utilize its products and services.

A material loss of any customers or strategic partners, either as a result of competitive products and services offered by other companies or Bluedrop's inability to penetrate its respective market segment, could have a material adverse effect on Bluedrop's business,

financial condition and results of operations. There can be no assurances that Bluedrop will continue to attract customers and strategic partners and any inability to do so could materially adversely affect Bluedrop's business, financial condition and results of operations.

*Bluedrop's ability to recruit and retain management and other qualified personnel is crucial to its ability to develop, market and support its products and services*

Bluedrop's continued growth and success is largely dependent on the experience, abilities and dedication of its management and technical personnel. As Bluedrop 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 Bluedrop'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 Bluedrop's ability to promptly satisfy its customer needs and may therefore impede Bluedrop'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 Bluedrop's growth. The loss of certain key employees could have a significant impact on Bluedrop's business, results of operations and financial condition.

*If Bluedrop's intellectual property is not adequately protected, Bluedrop may lose its competitive advantage.*

Bluedrop relies on a combination of contractual provisions, copyright, trademarks, trade secrets and licenses to establish and protect its proprietary rights. Despite Bluedrop's best efforts to protect its intellectual property rights, unauthorized parties may attempt to copy aspects of Bluedrop's products and services to obtain information Bluedrop regards as proprietary. Policing unauthorized use of Bluedrop's proprietary technology, if required, may be difficult, time-consuming and costly. There can be no assurances that Bluedrop's means of protecting its proprietary rights will be adequate. Failure to protect its proprietary rights could have a material adverse effect on Bluedrop's business, results of operations and financial condition.

To protect its intellectual property, Bluedrop may become involved in litigation, which could result in substantial expenses, divert the attention of its management, cause significant delays, materially disrupt the conduct of its business or adversely affect its revenue, financial condition and results of operations.

*If Bluedrop is unable to maintain the security of its systems, its business, financial condition and operating results could be harmed*

The occurrence of a security breach, or perception of such a breach, in the operation of Bluedrop's business or by third parties using Bluedrop's products and services could harm its business, financial condition and operating results. Bluedrop may have access to confidential information, including passwords, financial information or other personal information from Bluedrop's customers. If, in handling this information, Bluedrop fails to comply with its customer's privacy policies or applicable privacy and security laws, Bluedrop could incur civil liability to government agencies, customers and individuals whose privacy was compromised. In addition, third parties may attempt to breach Bluedrop's security or inappropriately use Bluedrop's products and services through computer viruses, electronic

break-ins and other disruptions. If successful, confidential information may be improperly obtained and Bluedrop could be subject to lawsuits and other liability. Any internal or external security breaches could harm Bluedrop's reputation and any perception of security risks, whether or not valid, could inhibit market acceptance of Bluedrop's products and services.

*Bluedrop may be unable to identify and complete acquisitions, and acquisitions could divert management's attention and financial resources, may negatively affect Bluedrop's operating results, and could cause significant dilution to shareholders*

Bluedrop may seek to further expand operations by acquiring additional complementary businesses, products or technologies. There can be no assurances that Bluedrop will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses, products, services or technologies into Bluedrop's business units without substantial expense, delays or other operational or financial problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management's attention, expenses of amortizing the acquired company's intangible assets, failure to retain key personnel, unanticipated events or circumstances and legal liabilities, some of which could have a material adverse effect on Bluedrop's business, results of operations and financial condition. Acquisitions could also result in the potentially dilutive issuance of equity securities. Any failure to manage Bluedrop's acquisition strategy successfully could have a material adverse effect on Bluedrop's business, results of operations and financial condition.

*Products and software issues may result in increases in Bluedrop's costs and/or lost revenue opportunities*

Bluedrop's products and technologies are complex. Although Bluedrop employs vigorous testing and quality assurance, its products and software may contain defects or errors, particularly when first introduced or as new versions are released. Bluedrop may not discover such defects or errors until after a product or service has been released and used by the end-users. Defects and errors in Bluedrop's products and services could materially adversely affect its reputation, result in significant costs to Bluedrop, delay planned release dates and impair Bluedrop's ability to sell its products and services in the future. The costs incurred in correcting any product defect or error may be substantial and could adversely affect Bluedrop's operating margins. While Bluedrop plans to continually test its products and services and to work with end-users to identify and correct defects and errors, defects and errors in Bluedrop's products may still be found in the future.

*System failure could harm Bluedrop's reputation and operating results*

System network failure or disruption of service, whether within Bluedrop's control or third parties, could impair Bluedrop's customers' ability to utilize its products and services for an indeterminate period of time. Bluedrop's operations depend upon its ability to maintain and protect computer systems within Bluedrop's facilities.

*Growth in the learning and training software business may not continue*

The overall market for learning and training software products and services has experienced significant growth in recent years. There can be no assurances that the market for Bluedrop's products and services will continue to grow, that firms and organizations within the

industries will adopt Bluedrop's products and services to train their employees or that Bluedrop will be able to independently establish additional markets for its products and services. If the various markets in which Bluedrop's products and services compete fail to grow or grow more slowly than Bluedrop currently anticipates, or if Bluedrop is unable to establish markets for its new products and services, its business, results of operations and financial condition could be materially adversely affected.

*Increased competition could have an adverse effect on Bluedrop's business*

The markets for Bluedrop's products and services are highly competitive. As some of these markets continue to develop, additional competitors with more established and larger marketing and technical resources than Bluedrop may enter the market and competition may intensify. In addition, current competitors may develop products and services that are comparable or superior to Bluedrop's products and services or achieve greater market acceptance due to pricing, sales channels or other factors.

As the demand for Bluedrop's products and services increases, the quality, functionality and breadth of competing products and services will likely improve and new competitors may enter the market. Further, the adoption of widespread industry standards may make it easier for new market entrants or existing competitors to improve their existing products and services, to offer some or all of the products and services Bluedrop offers or may offer in the future, or to offer new products or services that Bluedrop does not offer. Bluedrop can provide no assurances that its products and services will compete successfully with the products and services of Bluedrop's competitors.

Bluedrop's ability to successfully differentiate itself from its competitors and thereby establish a sustainable and profitable presence and effectively compete in the learning and training software market cannot be assured. Competitors are seeking to gain market share by introducing new technology and new products and services which may make it more difficult to sell Bluedrop's products and services. Activities of Bluedrop's competitors could have a negative impact on Bluedrop by creating increased pricing pressure, reduce profit margins, increasing sales and marketing expense or result in the loss of Bluedrop's market share. If Bluedrop is unable to effectively respond to these competitive factors, its business, results from operations and financial condition could be materially adversely affected.

*Third parties may allege that Bluedrop infringes on their intellectual property*

The industries in which Bluedrop competes have other participants, who own, or claim to own, intellectual property. Although Bluedrop has conducted prudent reviews of Bluedrop's products and software to ensure that it does not knowingly use unlicensed intellectual property, third parties may allege that Bluedrop infringes on their intellectual property. Should such an allegation be made, the outcome of any litigation is impossible to predict and, should the outcome be unfavorable to it, Bluedrop may not be able to negotiate acceptable, or indeed any, licensing terms. Such an event could materially adversely affect Bluedrop's business, results of operations and financial condition.

In addition, some of Bluedrop's competitors have, or are affiliated with companies having, substantially greater resources than Bluedrop and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than Bluedrop. Regardless of their merit, any such claims could:

- be time consuming to evaluate and defend;
- result in costly litigation;
- cause product or service delivery delays or stoppages;
- subject Bluedrop to significant liabilities;
- require Bluedrop to enter into costly royalty or licensing agreements; and
- require Bluedrop to modify or stop using the infringing technology.

*A continued general economic downturn may negatively affect Bluedrop*

A continued downturn in the global economic environment has the potential to negatively impact Bluedrop in a number of respects, including:

- impaired ability to reliably forecast revenue and profitability;
- increased pressure to reduce selling prices;
- increased potential for cancellation or loss of sales opportunities; and
- customers may experience financial difficulty leading to increased accounts receivable collection risk.

Market volatility and uncertainty in the global financial and credit markets could cause many of Bluedrop's corporate and governmental customers to reduce their level of capital and operating expenditures. Decreased capital and operating spending could have a material adverse effect on the demand for Bluedrop's products and services and business, results of operations, cash flows and overall financial condition.

Volatility in the financial markets may adversely impact the availability of credit and funding already arranged and the availability and cost of credit and capital in the future, which could result in the delay or cancellation of possible future acquisitions. The disruptions in the financial markets may have an adverse impact on regional and world economies and credit markets which could negatively impact the capital and operating expenditures of Bluedrop's corporate and government customers. These conditions may reduce the willingness or ability of customers and prospective customers to commit funds to purchase Bluedrop's products and services, or their ability to pay for Bluedrop's products and services after purchase or initial subscription. These conditions could result in bankruptcy or insolvency for Bluedrop's corporate customers which would impact Bluedrop's revenues and cash collections. These conditions could also result in pricing pressure, less favorable financial terms and an increased level of risk assumed in Bluedrop's contracts. Bluedrop is unable to predict the likely duration and severity of the current disruption in global financial markets and adverse economic conditions in North America and around the world.

*Economic and geopolitical uncertainty may negatively affect Bluedrop*

The market for Bluedrop's products and services depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond Bluedrop's control. In addition, acts of terrorism and the outbreak of hostilities and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy or geopolitical uncertainties may cause end-users to delay, reduce or cancel orders or subscriptions for Bluedrop's products and services, any of which could have a material adverse effect on Bluedrop's business, results of operations and financial position.

*Bluedrop derives a substantial part of its revenue from a few key customers*

A key element of Bluedrop's business strategy is to expand the market for its products and services by expanding its relationships with major defence contractors and governmental agencies in the learning and training software business. In order to implement that strategy, Bluedrop will have to foster its existing relationships, and to form new relationships with defence contractors, governmental agencies and other corporate entities. There can be no assurance that Bluedrop will be able to develop additional relationships that existing relationships will continue or be successful in achieving their purposes, or that such companies or organizations will not form competing relationships.

*Bluedrop's revenues are substantially concentrated in two market categories*

The Training and Simulation Business generated 80% of Bluedrop's revenues, and the Learning Networks Business generated 20% of Bluedrop's revenues, in the financial year ended September 30, 2016. A decline in demand for these products and services as a result of competition, technological change or other factors could have a material adverse effect on Bluedrop's business, results of operations and financial condition.

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

*Bluedrop's business faces risks associated with public budgets, spending policies and government assistance programs*

Bluedrop sells its products and services to, among other customers, governments and governmental entities. 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.

Bluedrop's business also relies on government assistance programs such as federal and provincial tax credit programs. These programs can be amended or terminated by the applicable government with little or no notice to Bluedrop. Bluedrop's claims under these assistance programs may also be rejected, which could negatively impact Bluedrop's income and financial condition.

*Bluedrop's revenues from customer contracts are subject to the creditworthiness of its customers*

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. Bluedrop utilizes credit evaluation, approval and monitoring processes intended to mitigate potential credit risks with respect to trade receivables. Bluedrop's maximum exposure to credit risk, with respect to accounts receivable and unbilled work in progress corresponds to the carrying value.

*Bluedrop's ability to obtain funding from new equity or additional debt may be limited*

Bluedrop depends on equity and debt financing to fund the ongoing development of the Corporation's technology assets. Raising additional funding on a timely basis may be adversely impacted by uncertain market conditions and the availability of appropriate financing opportunities. Bluedrop's inability to access sufficient funding for its operations or any intended acquisitions could have an adverse effect on its financial condition.

## **DIVIDENDS AND DISTRIBUTIONS**

No dividends have been paid by Bluedrop in the last three financial years. Bluedrop intends to retain its earnings, if any, to finance the growth and development of business and does not intend to pay dividends on the Common Shares in the foreseeable future. The payment of future dividends, if any, will be reviewed periodically by Bluedrop's directors and will depend upon, among other things, conditions then existing, including earnings, financial condition and capital requirements, restrictions in financing agreements, business opportunities and conditions and other factors.

## **DESCRIPTION OF CAPITAL STRUCTURE**

Bluedrop is authorized to issue an unlimited number of Common Shares without nominal or par value, of which there were 98,217,276 Common Shares outstanding as of September 30, 2016, (giving effect to the cancellation of 466,500 Common Shares repurchased in September 2016 under the NCIB but not cancelled until October 6, 2016). Each Common Share carries the right to one vote at meetings of shareholders of Bluedrop, as well as the right to receive dividends declared by the Corporation and to receive the remaining property of the Corporation upon dissolution.

As of September 30, 2016, 16,827,718 Common Shares were reserved for issuance pursuant to Bluedrop's 2011 stock option plan (the "**2011 Option Plan**"), including Common Shares issuable under 14,603,437 outstanding options granted pursuant to the 2011 Option Plan. In addition, as of September 30, 2016, 2,969,597 Common Shares remain available for issuance pursuant to Bluedrop's employee share purchase plan (the "**ESPP**").

## MARKET FOR SECURITIES

### Trading Price and Volume

The Common Shares began trading on the TSXV on January 27, 2012 under the symbol "BPL".

The following table sets out the high and low trading price, and volume of trading on a monthly basis, of the Common Shares on the TSXV from October 1, 2015 to September 30, 2016, the most recently completed financial year:

Month	High	Low	Volume
October 2015	\$0.10	\$0.07	300,500
November 2015	\$0.08	\$0.07	337,100
December 2015	\$0.09	\$0.07	631,200
January 2016	\$0.10	\$0.07	882,400
February 2016	\$0.12	\$0.09	314,700
March 2016	\$0.14	\$0.09	606,200
April 2016	\$0.19	\$0.11	1,733,000
May 2016	\$0.20	\$0.16	703,300
June 2016	\$0.25	\$0.19	778,900
July 2016	\$0.24	\$0.19	538,900
August 2016	\$0.28	\$0.20	604,000
September 2016	\$0.22	\$0.16	1,319,000

### Prior Sales

Bluedrop does not have any class of securities that is outstanding but not listed or quoted on an exchange, other than the Difference 2013 Debenture, the Difference 2015 Debenture and options to acquire Common Shares pursuant to the 2011 Option Plan and the ESPP described above under "Description of Capital Structure".

The Difference 2013 Debenture was issued on December 30, 2013 for a principal amount of \$3,000,000 and was amended as of December 11, 2015. It is convertible at a conversion price of \$0.15 per Common Share for up to 20,000,000 Common Shares, has a maturity date of December 30, 2017 and bears interest at the rate of 14% per annum.

The Difference 2015 Debenture was issued on February 13, 2015 for a principal amount of \$625,000. It was convertible at a conversion price of \$0.15 per Common Share for up to 4,166,667 Common Shares, had a maturity date of December 30, 2016 and bore interest at the rate of 14% per annum. As of September 30, 2016, Difference partially converted \$100,000 of the principal amount of the Difference 2015 Debenture, in accordance with the terms of the Difference 2015 Debenture, and acquired an aggregate of 666,667 Common Shares.

Difference partially converted a further \$125,000 of the principal amount of the Difference 2015 Debenture on December 8, 2016 and acquired an aggregate of 833,333 Common Shares. Difference converted the remaining \$400,000 in principal into 2,666,667 Common Shares at

\$0.15 per Common Share on December 30, 2016 and so the Difference 2015 Debenture has been paid in full and cancelled.

### **ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER**

To the knowledge of Bluedrop, no securities of Bluedrop are held in escrow or are subject to a contractual restriction on transfer other than as set out in the table below.

Designation of Class	Number of securities held that are subject to a contractual restriction on transfer	Percentage of Class
Common Shares	1,700,000 <sup>1</sup>	1.72%

Notes:

- (1) The contractual restriction on transfer of these Common Shares continues in force as long as Name 3 Capital Inc. is indebted to Bluedrop pursuant to two promissory notes.

### **DIRECTORS AND OFFICERS**

#### **Directors and Officers**

The following table sets out, as of September 30, 2016, the names of the directors and executive officers of the Corporation, the province or state and country of residence of each such director and officer, their respective positions and offices held with Bluedrop and their principal occupations during the last five years.

Name, Place of Residence and Positions and Offices Held	Principal Occupation	Director/Officer of the Corporation Since
<b>Emad Rizkalla</b> <sup>(1)</sup> <i>President, CEO and Director</i> Newfoundland and Labrador, Canada	President and Chief Executive Officer of the Corporation	January 26, 2012
<b>Derrick Rowe</b> <sup>(3)</sup> <i>Director and Executive Chairman</i> Newfoundland and Labrador, Canada	Executive Chairman of the Corporation	January 26, 2012
<b>Andrew Youngman</b> <sup>(2)(4)(10)</sup> <i>Director</i> Massachusetts, United States of America	President and Chief Executive Officer of Citizens Disability LLC, a consumer services provider that assists qualified Americans in obtaining Social Security Disability Insurance	January 26, 2012
<b>Paul Sparkes</b> <sup>(2)(5)(10)</sup> <i>Director</i> Ontario, Canada	Corporate director and President of Otterbury Holdings Inc., a company advising growth entities in private and public markets	January 28, 2014

<b>Name, Place of Residence and Positions and Offices Held</b>	<b>Principal Occupation</b>	<b>Director/Officer of the Corporation Since</b>
<b>Tom Astle</b> <sup>(2)(6)(10)</sup> <i>Director</i> Ontario, Canada	Chief Investment Officer at Difference Capital Financial Inc., a strategic investment and advisory service company	March 5, 2015
<b>Bernard Beckett</b> <sup>(7)(8)</sup> <i>Chief Financial Officer and Secretary</i> Newfoundland and Labrador, Canada	Chief Financial Officer of the Corporation	January 26, 2012 <sup>(8)</sup>
<b>John Moores</b> <sup>(9)</sup> <i>Chief Operation Officer</i> Newfoundland and Labrador, Canada	Chief Operating Officer of the Corporation	January 26, 2012

Notes:

- (1) Over the last five years, Emad Rizkalla's principal occupation was as follows: Chief Executive Officer of Blue Drop Inc. (referred to in this AIF as Former Blue Drop) from June 2002 to January 25, 2012.
- (2) Member of the Audit Committee.
- (3) In addition to the principal occupation indicated above, over the last five years, Derrick Rowe's principal occupations were as follows: President and CEO of Name 3 Capital Inc., Derrick's personal holding company, and Director and Chairman of Marport Deep Sea Technologies Inc., a company that developed and marketed deep sea water sonar equipment.
- (4) In addition to the principal occupation indicated above, over the last five years, Andrew Youngman's principal occupations included President and CEO of Sail Rock Holdings LLC, a privately-held company providing management, financial and investment services to consumer direct businesses.
- (5) In addition to the principal occupation listed above, Paul Sparkes is presently a principal in and advisor to Maple Leaf Strategies and, over the last five years, occupations were as follows: Executive Vice-President, Corporate Affairs of CTV Globemedia and director and Executive Vice-Chairman of Difference Capital Financial Inc.
- (6) In addition to the principal occupation listed above, over the last five years, Tom Astle's principal occupations included Head of Research at Byron Capital Markets, an investment dealer, and Executive Vice President, Head of Research, for Dundee Securities Ltd., an investment dealer.
- (7) In addition to the principal occupation listed above, over the last five years, Bernard Beckett's principal occupations included independent financial consultant and Chief Financial Officer of Marport Deep Sea Technologies Inc.
- (8) Bernard Beckett was a director of the Corporation from January 26, 2012 to April 26, 2013, at which time he was appointed Chief Financial Officer.
- (9) In addition to the principal occupation indicated above, over the last five years, John Moores' principal occupations included Vice President of Operations of Blue Drop Inc. (referred to in this AIF as Former Blue Drop).
- (10) Member of the Compensation and Corporate Governance Committee.

As of September 30, 2016, all directors and executive officers of Bluedrop, as a group, beneficially own, directly or indirectly, or exercise control or direction over, 78,951,345 Common Shares, representing 80.38% of all outstanding Common Shares.

Each director elected or appointed will hold office until the next annual general meeting of the shareholders of Bluedrop or until his or her successor is elected or appointed, unless his or her office is earlier vacated in accordance with the articles of Bluedrop or the provisions of the NLCA.

**Cease trade orders, bankruptcies, penalties or sanctions**

Except as disclosed below, to the knowledge of Bluedrop, no director, executive officer or shareholder holding a sufficient number of securities of Bluedrop to affect materially the control of Bluedrop:

- (a) is, as at the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company (including Bluedrop) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Derrick Rowe was a director of Marport Deep Sea Technologies Inc. until his resignation on September 24, 2013. On October 9, 2013, Marport Deep Sea Technologies Inc. was adjudged bankrupt by receivership order by the Supreme Court of Newfoundland and Labrador.

### **Conflicts of Interest**

Directors and officers of Bluedrop may also serve as directors and/or officers of other companies engaged in similar businesses and may be presented from time to time with situations or opportunities which give rise to apparent conflicts of interest which cannot be resolved by arm's length negotiations but only through exercise by the officers and directors of such judgment as is consistent with their fiduciary duties to Bluedrop which arise under applicable corporate law, especially insofar as taking advantage, directly or indirectly, of information or opportunities acquired in their capacities as directors or officers of Bluedrop. It is expected that all conflicts of interest will be resolved in accordance with the provisions of the NLCA. It is expected that any transactions with officers and directors will be on terms consistent with industry standards and sound business practice in accordance with the fiduciary duties of those persons to Bluedrop, and, depending upon the magnitude of the transactions and the absence of any disinterested board members, may be submitted to the shareholders for their approval.

### **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Company and its subsidiaries are from time to time involved in various claims and litigation arising in the normal course of business. Bluedrop has been named as a defendant in a wrongful dismissal lawsuit. The outcome and financial impact cannot be reasonably determined and estimated at this time. Although management does not believe that an adverse decision in such proceedings would have a material adverse effect on the Company's financial condition, the outcome of litigation cannot be predicted with certainty.

There were no:

- (a) penalties or sanctions imposed against Bluedrop by a court relating to securities legislation or by a securities regulatory authority during the financial year ended September 30, 2016;

- (b) other penalties or sanctions imposed by a court or regulatory body against Bluedrop that would likely be considered important to a reasonable investor in making an investment decision; and
- (c) settlement agreements which Bluedrop entered into before a court relating to securities legislation or with a securities authority during the financial year ended September 30, 2016.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as disclosed below, during the financial year ended September 30, 2016, no director or executive officer of Bluedrop, or any person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares, or associates or affiliates of any of those persons or companies, has had any material interest, direct or indirect, in any transaction since October 1, 2012 that has materially affected or is reasonably expected to materially affect Bluedrop or any of its subsidiaries.

As of September 30, 2016, Emad Rizkalla, a director and executive officer of Bluedrop, holds, through Rizbollo Holdings Limited, an aggregate of 62,478,232 Common Shares or approximately 63.6% of the issued and outstanding Common Shares.

Effective October 1, 2011, the Corporation entered into a six-year lease with one renewal option for four years with LB2P Holdings Inc., a company controlled by Emad Rizkalla. The Corporation occupies 100% of the premises owned by LB2P Holdings Inc. located at 18 Prescott Street, St. John's, Newfoundland and Labrador. The lease includes an initial net lease rate for two years and escalation provisions every two years thereafter. Rent expenses for the premises for the year ended September 30, 2016, was \$282,240 and for the year ended September 30, 2015 was \$262,080.

During the financial year ended September 30, 2014, Name 3 Capital Inc. ("**Name 3**"), a company controlled by Derrick Rowe, Executive Chairman and a Director of the Corporation, assumed a debt owed by Allan Dillon, a former executive officer of the Corporation, to the Corporation in the amount of \$119,589 for share purchase loans. As collateral for the non-interest bearing share purchase loans, Name 3 granted the Corporation a security interest in 1,200,000 Common Shares acquired by Name 3 from Allan Dillon. The debt is repayable in full on or before June 27, 2017. In the event Derrick Rowe ceases to be a Director of the Corporation, the outstanding principal amount of the loan will be subject to interest at the Corporation's current rate of borrowing from its bank or other relevant credit facilities.

During the financial year ended September 30, 2015, Name 3 also assumed a debt owed by Tim Brown, a former executive officer of the Corporation, in the amount of \$50,227 for share purchase loans. As collateral for the non-interest bearing share purchase loans, Name 3 granted the Corporation a security interest in 500,000 Common Shares acquired by Name 3 from Tim Brown. The debt is repayable in full on or before January 31, 2018. In the event Derrick Rowe ceases to be a Director of the Corporation, the outstanding principal amount of the loan will be subject to interest at the Corporation's current rate of borrowing from its bank or other relevant credit facilities.

### **TRANSFER AGENT AND REGISTRAR**

Bluedrop's transfer agent and registrar for the Common Shares is Computershare Investor Services Inc. at its offices in Toronto, Ontario and Halifax, Nova Scotia.

### **MATERIAL CONTRACTS**

Bluedrop and its subsidiaries are parties to the following material contracts entered into since October 1, 2015 or before that date and that are still in effect, other than contracts entered into in the ordinary course of business:

1. The Royalty Agreement, as amended and restated as of March 30, 2015, and further amended as of July 29, 2016, between Bluedrop and Grenville pursuant to which Bluedrop initially received \$1,000,000 from Grenville in exchange for a royalty of 1% of revenues generated by Bluedrop in exploiting its intellectual property. See "*General Development of the Business – Debt Repayment and Financing*".

### **INTERESTS OF EXPERTS**

The auditor of Bluedrop is Grant Thornton LLP, Chartered Professional Accountants, in St. John's, Newfoundland and Labrador. Bluedrop's annual financial statements for the year ended September 30, 2016, contains an auditors' report prepared by Grant Thornton LLP.

Grant Thornton LLP is independent of Bluedrop in accordance with the Rules of Professional Conduct of the Association of Chartered Professional Accountants of Newfoundland and Labrador.

### **ADDITIONAL INFORMATION**

Additional information relating to Bluedrop is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Bluedrop's securities and securities authorized for issuance under equity compensation plans, is contained in Bluedrop's information circular dated January 29, 2016, and additional financial information is provided in Bluedrop's financial statements and management's discussion and analysis for the year ended September 30, 2016, all of which is available on SEDAR.