

# **Bluedrop Performance Learning Inc.**

Condensed Consolidated Interim Financial Statements  
(Unaudited)

**Six months ended March 31, 2018**

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

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

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

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**Bluedrop Performance Learning Inc.**Consolidated Statements of Financial Position  
Unaudited**March 31 September 30**  
**2018 2017**

In Canadian dollars

**ASSETS**

## Current assets

Cash	\$	1,014,077	2,149,369
Restricted cash (Note 3)		-	3,000,000
Accounts receivable (Note 4)		7,731,738	6,767,217
Unbilled revenue		514,147	672,595
Other current assets (Note 5)		1,037,765	1,370,797
		<u>10,297,727</u>	<u>13,959,978</u>

Deferred tax assets		5,232,295	5,101,620
Goodwill and other intangible assets (Note 6)		3,560,193	3,857,605
Property and equipment (Note 7)		315,289	446,355
Other long-term assets		169,816	169,816
	\$	<u>19,575,320</u>	<u>23,535,374</u>

**LIABILITIES AND EQUITY**

## Current liabilities

Bank indebtedness	\$	351,917	-
Accounts payable and accruals		2,609,958	2,817,304
Deferred revenue		3,025,805	3,373,469
Current portion of long-term debt (Note 8)		2,108,483	4,813,606
Other current liabilities		360,780	369,055
		<u>8,456,943</u>	<u>11,373,434</u>

Long-term debt (Note 8)		3,520,707	4,204,001
Discounted royalty obligations (Note 10)		3,443,449	3,167,693
Deferred tax liabilities		413,546	449,504
Other long-term liabilities		34,661	45,711
		<u>15,869,306</u>	<u>19,240,343</u>

## Equity

Share capital (Note 11)		5,505,689	5,547,489
Contributed surplus		1,640,712	1,633,535
Deficit		(3,440,387)	(2,885,993)
		<u>3,706,014</u>	<u>4,295,031</u>
	\$	<u>19,575,320</u>	<u>23,535,374</u>

Approved on Behalf of the Board

Derrick H. Rowe  
DirectorEmad Rizkalla  
Director

**Bluedrop Performance Learning Inc.**

Consolidated Statements of Comprehensive Income (Loss)

Unaudited

**Six months ended March 31**

In Canadian dollars

	<b>Three Months Ended March 31</b>		<b>Six Months Ended March 31</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenue</b>				
Services revenue	\$ 3,974,027	4,307,034	\$ 7,540,643	8,205,216
Product sales	2,150,547	2,552,400	3,706,134	3,373,666
	6,124,574	6,859,434	11,246,777	11,578,882
Direct costs	3,874,553	4,338,001	7,123,142	6,928,922
<b>Gross profit</b>	2,250,021	2,521,433	4,123,635	4,649,960
<b>Expenses</b>				
Sales and marketing	405,852	399,193	787,558	856,572
General and administration	1,169,953	1,104,354	2,315,914	2,298,007
Research and development costs	722,916	650,550	1,230,394	1,378,907
Government assistance and other funding (Note 12)	(364,592)	(1,045,721)	(690,012)	(1,703,568)
Share-based compensation (Note 11)	3,427	15,241	7,177	34,096
Finance costs (Note 13)	314,271	412,393	709,187	847,941
Depreciation and amortization	234,281	255,287	451,280	516,984
Other (gains) and losses (Note 14)	(73,695)	(40,992)	(76,692)	4,593
	2,412,413	1,750,305	4,734,806	4,233,532
<b>Profit before income taxes</b>	(162,392)	771,128	(611,171)	416,428
Income tax (recovery) expense				
Deferred	(41,535)	335,324	(166,633)	397,708
	(41,535)	335,324	(166,633)	397,708
<b>Net (loss) profit and comprehensive (loss)</b>	\$ (120,857)	435,804	\$ (444,538)	18,720
<b>Net (loss) profit per share</b>				
Basic	(0.0013)	0.0046	(0.0047)	0.0002
Diluted	(0.0013)	0.0043	(0.0047)	0.0002
<b>Weighted average number of shares outstanding</b> (Note 11)				
Basic	93,611,164	95,219,329	93,711,350	93,781,751
Diluted	93,611,164	100,447,425	93,711,350	98,351,618

## Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Six months ended March 31

In Canadian dollars

	Ordinary Common Shares	Share Capital	Contributed Surplus - Share Options	Contributed Surplus - Convertible Notes	Deficit	Total
<b>October 1, 2016</b>	98,217,276	\$ 5,087,066	\$ 1,397,795	\$ 221,923	\$ (5,361,123)	\$ 1,345,661
Share-based compensation	-	-	34,096	-	-	34,096
Exercise of share options	155,000	11,948	-	-	-	11,948
Repurchase of shares under normal course issuer bid (Note 11)	(764,500)	(38,225)	-	-	(91,193)	(129,418)
Conversion of debenture (Note 8)	3,500,000	555,684	-	(30,684)	-	525,000
Net profit and comprehensive income	-	-	-	-	18,720	18,720
<b>March 31, 2017</b>	101,107,776	\$ 5,616,473	\$ 1,431,891	\$ 191,239	\$ (5,433,596)	\$ 1,806,007
Share-based compensation	-	-	10,405	-	-	10,405
Exercise of share options	-	116	-	-	-	116
Repurchase of shares under normal course issuer bid (Note 11)	(1,382,000)	(69,100)	-	-	(181,670)	(250,770)
Net profit and comprehensive income	-	-	-	-	2,729,273	2,729,273
<b>September 30, 2017</b>	99,725,776	\$ 5,547,489	\$ 1,442,296	\$ 191,239	\$ (2,885,993)	\$ 4,295,031
Share-based compensation	-	-	7,177	-	-	7,177
Repurchase of shares under normal course issuer bid (Note 11)	(836,000)	(41,800)	-	-	(109,856)	(151,656)
Net loss and comprehensive loss	-	-	-	-	(444,538)	(444,538)
<b>March 31, 2018</b>	98,889,776	\$ 5,505,689	\$ 1,449,473	\$ 191,239	\$ (3,440,387)	\$ 3,706,014

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**Bluedrop Performance Learning Inc.**

Consolidated Statements of Cash Flows

Unaudited

**Six months ended March 31****2018****2017**

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In Canadian dollars

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

Net profit for the period	\$	(444,538)	18,720
Items not affecting cash:			
Share-based compensation		7,177	34,096
Depreciation and amortization		451,280	516,984
Non-cash government assistance		(107,509)	(423,503)
Finance costs		709,187	847,941
Deferred taxes		(166,633)	397,708
Unrealized loss on derivative instruments		90,896	369
Net foreign exchange differences		(151,822)	(25,111)
Interest paid		(12,078)	(25,476)
		375,960	1,341,728
Changes in non-cash working capital (Note 15)		(1,091,719)	(2,491,199)
<b>Net change in cash from operating activities</b>		<b>(715,759)</b>	<b>(1,149,471)</b>

**Investing activities**

Purchase of property and equipment		(22,802)	(44,873)
Decrease in restricted cash		3,000,000	-
<b>Net change in cash from investing activities</b>		<b>2,977,198</b>	<b>(44,873)</b>

**Financing activities**

Advances of long-term debt		385,537	1,564,564
Repayment of obligations under finance leases		(10,320)	(7,209)
Repayment of long-term debt		(3,850,588)	(641,145)
Repayment of other financial liabilities		(115,359)	(332,811)
Share options exercised		-	11,948
Repurchase of shares under normal course issuer bid		(151,656)	(129,418)
Interest paid		(130,856)	(315,995)
<b>Net change in cash from financing activities</b>		<b>(3,873,242)</b>	<b>149,934</b>

**Decrease in cash**

		(1,611,803)	(1,044,410)
Cash and cash equivalents, beginning of period		2,149,369	3,111,352
Net foreign exchange impact on cash		124,594	9,680
<b>Cash, end of period</b>	\$	<b>662,160</b>	<b>2,076,622</b>

**Cash consists of:**

Cash on hand and in bank	\$	1,014,077	2,076,622
Bank indebtedness		(351,917)	-
	\$	<b>662,160</b>	<b>2,076,622</b>

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## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2018

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In Canadian dollars

### 1. Nature of operations

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

Bluedrop Training & Simulation Inc.  
Bluedrop Learning Networks Inc.  
Bluedrop Simulation Services Inc.

The Company provides e-learning and course development services and offers online training solutions for businesses and individuals through cloud-based learning management solutions and traditional learning management systems. In addition, the Company provides custom courseware development, training products, low cost simulation and resource augmentation solutions to improve the safety, productivity and efficiency of military and civil aviation personnel through its Training and Simulation operations. The Company is domiciled in Canada and its registered office is located at 18 Prescott Street, St. John's, Newfoundland and Labrador, A1C 3S4.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors on May 23, 2018.

### 2. Basis of presentation

These condensed consolidated interim financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) and in accordance with International Accounting Standard (IAS) 34 Consolidated Interim Financial Reporting using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board (IASB). These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the preparation of the Company's audited annual financial statements for the year ended September 30, 2017. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended September 30, 2017.

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

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

### 3. Restricted cash

At September 30, 2016, the Company raised term debt to preserve working capital for growth and to fund its maturing debt obligations during the following fifteen months. Proceeds of the term debt were invested in a Guaranteed Investment Certificate and held by the Royal Bank of Canada under a cash collateral agreement as additional security for the term loan until a decision was made regarding conversion or repayment of the unsecured convertible term note (Note 8) which was due December 30, 2017. The proceeds of the term loan were presented as restricted cash in current assets on the consolidated statements of financial position. On November 17, 2017 the restricted cash balance was used to repay the unsecured convertible term note in full.

### 4. Accounts receivable

	March 31 2018	September 30 2017
Trade	\$ 4,284,833	3,060,842
Government assistance - digital media tax credits	3,010,899	3,492,256
Government assistance - other	187,573	208,651
Other	248,433	5,468
	<u>\$ 7,731,738</u>	<u>6,767,217</u>

Included in trade receivables at March 31, 2018 is an allowance for doubtful accounts for \$320,733 (September 30, 2017 - \$325,884). Provisions are recognized in other gains and losses on the consolidated statements of comprehensive income.

**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

**Six months ended March 31, 2018**

In Canadian dollars

**5. Other current assets**

	<b>March 31 2018</b>	<b>September 30 2017</b>
Work in progress	\$ 715,549	936,282
Prepaid expenses	283,204	304,607
Derivative asset	39,012	129,908
	<b>\$ 1,037,765</b>	<b>1,370,797</b>

**6. Goodwill and other intangible assets**

	<b>Courseware and other</b>	<b>Technology</b>	<b>Customer Relationships</b>	<b>Goodwill</b>	<b>Total</b>
<b>Cost</b>					
October 1, 2016	\$ 61,815	3,142,103	2,905,000	1,853,131	7,962,049
September 30, 2017	\$ 61,815	3,142,103	2,905,000	1,853,131	7,962,049
March 31, 2018	\$ 61,815	3,142,103	2,905,000	1,853,131	7,962,049
<b>Accumulated amortization and impairment losses</b>					
October 1, 2016	\$ 61,815	2,362,121	1,028,000	-	3,451,936
Amortization	-	336,936	315,572	-	652,508
September 30, 2017	\$ 61,815	2,699,057	1,343,572	-	4,104,444
Amortization	-	139,626	157,786	-	297,412
March 31, 2018	\$ 61,815	2,838,683	1,501,358	-	4,401,856
<b>Carrying values</b>					
October 1, 2016	\$ -	779,982	1,877,000	1,853,131	4,510,113
September 30, 2017	\$ -	443,046	1,561,428	1,853,131	3,857,605
March 31, 2018	\$ -	303,420	1,403,642	1,853,131	3,560,193

**7. Property and equipment**

	<b>Computer equipment and software</b>	<b>Furniture fixtures and equipment</b>	<b>Vehicles</b>	<b>Leasehold Improvements</b>	<b>Total</b>
<b>Cost</b>					
October 1, 2016	\$ 661,283	805,886	46,967	193,956	1,708,092
Additions	169,601	-	-	-	169,601
September 30, 2017	\$ 830,884	805,886	46,967	193,956	1,877,693
Additions	22,802	-	-	-	22,802
March 31, 2018	\$ 853,686	805,886	46,967	193,956	1,900,495
<b>Accumulated depreciation</b>					
October 1, 2016	\$ 474,997	432,298	46,967	160,666	1,114,928
Depreciation	112,042	188,280	-	16,088	316,410
September 30, 2017	\$ 587,039	620,578	46,967	176,754	1,431,338
Depreciation	63,329	82,495	-	8,044	153,868
March 31, 2018	\$ 650,368	703,073	46,967	184,798	1,585,206
<b>Carrying values</b>					
October 1, 2016	\$ 186,286	373,588	-	33,290	593,164
September 30, 2017	\$ 243,845	185,308	-	17,202	446,355
March 31, 2018	\$ 203,318	102,813	-	9,158	315,289



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**Bluedrop Performance Learning Inc.**

Notes to Condensed Consolidated Interim Financial Statements

**Six months ended March 31, 2018**In Canadian dollars

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**8. Long-term debt**

	<b>Term</b>	<b>March 31 2018</b>	<b>September 30 2017</b>
Unsecured convertible term note - 14%	(a) 2013-2017 \$	-	2,979,099
Term loan - 4.09%	2016-2019	2,199,338	2,778,533
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	243,659	304,685
Government of Nova Scotia - 5%	2013-2021	752,442	834,018
Atlantic Canada Opportunities Agency - non-interest bearing	(b) 2018-2023	2,238,964	1,848,324
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018	45,606	89,040
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019	149,181	183,908
		5,629,190	9,017,607
Less: current portion		(2,108,483)	(4,813,606)
<b>Total long-term debt</b>	<b>\$</b>	<b>3,520,707</b>	<b>4,204,001</b>

(a) Unsecured convertible term note - 14%

On November 17, 2017, the Company used the restricted cash (Note 3) to repay in full the 14.0% unsecured convertible term note in the aggregate principal amount of \$3,000,000. The debenture was set to mature on December 30, 2017.

(b) Atlantic Canada Opportunities Agency - non-interest bearing

On February 23, 2017, the Company secured a \$3.0 million funding contribution under the Atlantic Canada Opportunities Agency Business Development Program to assist with working capital requirements for growth initiatives of the Company. The unsecured, non-interest bearing loan is repayable in 60 monthly installments of \$50,000 each commencing October 1, 2018.

On November 28, 2017, the Company made the final draw on the \$3.0 million funding contribution from Atlantic Canada Opportunities Agency. Proceeds on this draw were \$385,537. As of March 31, 2018, the Company has drawn the full \$3.0 million under this program (September 30, 2017 - \$2,614,464). The loan has been recorded using the effective interest method and the difference between the proceeds received and fair value is recognized as government assistance (Note 12).

**9. Operating loans**

The Company has a short-term bank operating line of credit to a maximum of the lesser of \$2,500,000 and defined marginable accounts receivable minus specified liabilities. The revolving operating facility is repayable on demand and bears interest at Royal Bank prime plus 2.20%. The Company has provided a General Security Agreement as security for this indebtedness. The line of credit was undrawn as at March 31, 2018 (September 30, 2017 - undrawn).

The Company has short-term non-revolving term facilities in the amount of \$351,917. The facilities are secured by receivable income tax credits and are repayable upon receipt of the funds received in relation to the secured tax credits. The facilities bear interest at Royal Bank prime plus 2.20%. In addition, the facilities are supported by the above noted General Security Agreement.

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2018

In Canadian dollars

### 10. Discounted royalty obligations

	March 31 2018	September 30 2017
Unsecured royalty obligation	\$ 1,795,181	1,657,160
ACOA-AIF unsecured royalty obligation	1,987,319	1,858,589
	3,782,500	3,515,749
less: current portion	(339,051)	(348,056)
Total long-term other financial liabilities	\$ 3,443,449	3,167,693

#### (a) Unsecured royalty obligation

The Unsecured royalty obligation agreement requires Bluedrop to pay a royalty of 1.0% of revenues in perpetuity with a minimum royalty payment of \$17,541 per month. The terms include a buyout option allowing the Company to extinguish 100% of all amounts owing upon payment of \$2,000,000. The obligation has been recorded using the effective interest method.

#### (b) ACOA-AIF unsecured Royalty obligation

The Company has recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,984,419 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and product related services resulting from the research funded. As of March 31, 2018, \$359,479 has been repaid.

### 11. Share capital

#### (a) Authorized

Unlimited common shares without par value

#### (b) Common shares issued and outstanding

	Number of Shares	Share capital
Issued and outstanding at October 1, 2016	98,217,276	\$ 5,087,066
Shares repurchased and cancelled under normal course issuer bid	(2,146,500)	(107,325)
Shares issued upon exercise of share options	155,000	12,064
Shares issued upon exercise of convertible debenture	3,500,000	555,684
Issued and outstanding at September 30, 2017	99,725,776	5,547,489
Shares repurchased and cancelled under normal course issuer bid	(836,000)	(41,800)
Issued and outstanding at March 31, 2018	98,889,776	\$ 5,505,689

On March 31, 2016, the Company began a normal course issuer bid to acquire up to an aggregate of 4,949,330 outstanding common shares. The Company accounts for purchases under the constructive retirement method whereby shares are treated as cancelled upon repurchase in line with managements intention to subsequently cancel the purchased shares within a reasonable period. As of March 31, 2017, 2,200,500 common shares had been repurchased under the plan at an average price of \$0.16 per share. This bid expired on March 30, 2017.

On March 31, 2017, the Company received approval from the TSX Venture Exchange for a further normal course issuer bid to acquire up to an aggregate of 5,052,889 outstanding common shares. As of March 31, 2018, 2,218,000 common shares had been repurchased under the plan at an average price of \$0.18 per share. The bid expired on March 30, 2018.

During the six months ended March 31, 2018, 836,000 shares were purchased for \$151,656. The purchases resulted in a decrease to share capital and deficit of \$41,800 and \$109,856, respectively.

On March 26, 2018, the Company received approval from the TSX Venture Exchange for a further normal course issuer bid to acquire up to an aggregate of 4,962,464 outstanding common shares. The new bid will expire on March 30, 2019.

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2018

In Canadian dollars

### 11. Share capital (continued)

(c) Share options	Number of options	Exercise price per share
Outstanding at October 1, 2016	14,603,437	\$0.15
Forfeitures	(337,000)	\$0.07
Expired	(4,067,920)	\$0.25
Exercised	(155,000)	\$0.08
Outstanding at September 30, 2017	10,043,517	\$0.11
Outstanding at March 31, 2018	10,043,517	\$0.11
Exercisable at March 31, 2018	8,887,867	\$0.12

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

The Company recorded \$7,177 of share-based compensation expense in the six months ended March 31, 2018, relating to the Stock Option Plan (2017 - \$34,096). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model.

#### (d) Employee share purchase plan

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 March 31, 2018, no shares were outstanding under the plan.

#### (e) Earnings per share

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

	Three months ended March 31		Six months ended March 31	
	2018	2017	2018	2017
Common shares issued and outstanding, beginning of period	99,483,776	100,952,776	99,725,776	98,217,276
Weighted average shares issued through convertible debentures	-	-	-	1,860,958
Weighted average shares issued through exercise of share options	-	23,204	-	48,066
Weighted average shares purchased through normal course issuer bid	(115,961)	-	(257,775)	(587,898)
Weighted average shares in treasury stock	(5,756,651)	(5,756,651)	(5,756,651)	(5,756,651)
Weighted average number of shares used in basic earnings per share	93,611,164	95,219,329	93,711,350	93,781,751
Effect of share options on issue	-	5,228,096	-	4,569,867
Weighted average number of shares used in diluted earnings per share	93,611,164	100,447,425	93,711,350	98,351,618

For the six months ended March 31, 2018, 10,043,517 share options were excluded from the calculation of diluted weighted average number of shares calculation because their effect would be anti-dilutive. For the six months ended March 31, 2017 3,670,800 share options and 20,000,000 shares on convertible notes were excluded from the calculation of diluted weighted average number of shares calculation because their effect would be anti-dilutive.

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2018

In Canadian dollars

### 12. Government assistance and other funding

	Three months ended March 31		Six months ended March 31	
	2018	2017	2018	2017
Government assistance included in income:				
National Research Council	\$ 209,456	-	348,846	48,579
Research & Development Corporation	42,551	-	82,407	9,378
Invest New Brunswick	-	-	595	-
Digital Media Tax Credits	110,675	305,588	148,745	537,872
Discounts on below-market interest rate debt (Note 8)	-	423,503	107,509	423,503
Other assistance	1,910	-	1,910	-
Other indirect government assistance included in income:				
The Boeing Company - Funding under the Government of Canada's IRB Policy	-	316,630	-	684,236
	\$ 364,592	1,045,721	690,012	1,703,568

### 13. Finance costs

	Three months ended March 31		Six months ended March 31	
	2018	2017	2018	2017
Interest on long-term debt	\$ 36,952	151,206	135,543	324,242
Accretion of other financial liabilities	193,183	198,429	382,110	395,570
Accretion of long-term debt	75,868	47,830	177,181	100,815
Short-term interest and bank charges	5,298	18,403	8,303	29,446
Interest on finance lease obligations	1,093	892	2,275	1,836
Other financing costs	1,877	(4,367)	3,775	(3,968)
Total finance costs	\$ 314,271	412,393	709,187	847,941

### 14. Other (gains) and losses

	Three months ended March 31		Six months ended March 31	
	2018	2017	2018	2017
Unrealized (gain) loss on derivative instrument	\$ (10,047)	(72,879)	90,895	369
Foreign exchange gain	(47,519)	31,887	(151,458)	4,224
Bad debt expense	(16,129)	-	(16,129)	-
Total other (gains) and losses	\$ (73,695)	(40,992)	(76,692)	4,593

### 15. Changes in non-cash working capital

	2018	2017
Accounts receivable	\$ (930,820)	(1,278,343)
Unbilled revenue	158,448	(355,554)
Other current assets	242,136	(56,894)
Other long-term assets	-	(67,511)
Accounts payable and accruals	(213,819)	(196,715)
Deferred revenue	(347,664)	148,054
Deferred development funding	-	(684,236)
	\$ (1,091,719)	(2,491,199)

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2018

In Canadian dollars

### 16. Expenses classified by nature

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

	Three months ended		Six months ended	
	March 31		March 31	
	2018	2017	2018	2017
Salaries and other labour costs	\$ 3,982,950	3,836,626	7,392,877	7,598,152
Materials, services and supplies	1,627,306	2,101,070	2,922,523	2,686,215
Travel and living	126,990	106,015	252,714	242,977
Occupancy	201,886	184,996	405,714	379,929
Professional fees	106,073	135,872	222,096	266,824
Other costs	128,069	127,519	261,084	288,311
Total expenses classified by nature	\$ 6,173,274	6,492,098	11,457,008	11,462,408

### 17. Related party transactions

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

#### (a) Share purchase loans

The Company has provided share purchase loans to a company controlled by Derrick Rowe, the Executive Chairman 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. As at March 31, 2018, the total amount receivable was \$169,816 (September 30, 2017 - \$169,816) and are included in other long-term assets on the statements of financial position.

#### (b) Rental lease

Effective October 1, 2011, the Company entered into a rental lease with an entity controlled by Emad Rizkalla, the Company's beneficial controlling shareholder. The arrangement provides for the lease of 100% of the premises at 18 Prescott Street, St. John's, NL with an initial term of six years and has a four year renewal option. On September 28, 2017, the Company renewed the lease for the four year renewal term, which expires on September 30, 2021. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter. During the six months ended March 31, 2018, the Company incurred \$146,160 (2017 - \$141,120) of rent expense associated with the lease.

#### (c) Key management personnel

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

	Three months ended		Six months ended	
	March 31		March 31	
	2018	2017	2018	2017
Fees, salaries and benefits to key management personnel	\$ 170,525	424,411	421,550	597,336
Share based compensation to key management personnel	\$ 977	7,857	2,031	17,790

### 18. Financial instruments

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on transactions incurred in US dollars. During the six months ended March 31, 2018, the Company recorded a \$60,563 gain on foreign currency (2017 - \$4,593 loss). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the six months ended March 31, 2018, the Company recorded revenue of \$5,812,385 from contracts denominated in US dollars (2017 - \$6,953,392). As at March 31, 2018, the Company held receivables of \$1,744,750 from contracts denominated in US dollars (2017 - \$1,933,666).

## Bluedrop Performance Learning Inc.

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### 19. Segment reporting

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

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

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

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

	Six months ended March 31, 2018			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,581,924	9,664,853	-	11,246,777
Direct costs	741,793	6,381,349	-	7,123,142
<b>Gross profit</b>	<b>840,131</b>	<b>3,283,504</b>	<b>-</b>	<b>4,123,635</b>
<b>Expenses</b>				
Sales and marketing	529,714	257,844	-	787,558
General and administration	276,196	670,945	1,368,773	2,315,914
Research and development costs	639,713	590,681	-	1,230,394
Government assistance and other funding	(379,755)	(199,742)	(110,515)	(690,012)
Share-based compensation	1,265	2,259	3,653	7,177
Finance costs	-	-	709,187	709,187
Depreciation and amortization	200,505	243,138	7,637	451,280
Other (gains) and losses	(34,507)	(14,727)	(27,458)	(76,692)
	1,233,131	1,550,398	1,951,277	4,734,806
<b>(Loss) earnings before income taxes</b>	<b>\$ (393,000)</b>	<b>1,733,106</b>	<b>(1,951,277)</b>	<b>(611,171)</b>

	Six months ended March 31, 2017			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 2,757,714	8,821,168	-	11,578,882
Direct costs	1,199,360	5,729,562	-	6,928,922
<b>Gross profit</b>	<b>1,558,354</b>	<b>3,091,606</b>	<b>-</b>	<b>4,649,960</b>
<b>Expenses</b>				
Sales and marketing	580,316	276,256	-	856,572
General and administration	286,537	564,500	1,446,970	2,298,007
Research and development costs	646,092	732,815	-	1,378,907
Government assistance and other funding	(124,378)	(1,155,687)	(423,503)	(1,703,568)
Share-based compensation	6,353	4,913	22,830	34,096
Finance costs	-	-	847,941	847,941
Depreciation and amortization	260,931	247,977	8,076	516,984
Other (gains) and losses	-	-	4,593	4,593
	1,655,851	670,774	1,906,907	4,233,532
<b>(Loss) earnings before income taxes</b>	<b>\$ (97,497)</b>	<b>2,420,832</b>	<b>(1,906,907)</b>	<b>416,428</b>

## Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Six months ended March 31, 2018

In Canadian dollars

### 19. Segment reporting (continued)

	Three months ended March 31, 2018			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 975,102	5,149,472	-	6,124,574
Direct costs	443,129	3,431,424	-	3,874,553
<b>Gross profit</b>	<b>531,973</b>	<b>1,718,048</b>	<b>-</b>	<b>2,250,021</b>
<b>Expenses</b>				
Sales and marketing	276,541	129,311	-	405,852
General and administration	144,930	264,725	760,298	1,169,953
Research and development costs	336,156	386,760	-	722,916
Government assistance and other funding	(208,917)	(152,669)	(3,006)	(364,592)
Share-based compensation	602	1,056	1,769	3,427
Finance costs	-	-	314,271	314,271
Depreciation and amortization	109,050	121,434	3,798	234,281
Other (gains) and losses	(12,943)	(23,248)	(37,504)	(73,695)
	645,419	727,369	1,039,626	2,412,413
<b>(Loss) earnings before income taxes</b>	<b>\$ (113,446)</b>	<b>990,679</b>	<b>(1,039,626)</b>	<b>(162,392)</b>

	Three months ended March 31, 2017			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,359,612	5,499,822	-	6,859,434
Direct costs	559,452	3,778,549	-	4,338,001
<b>Gross profit</b>	<b>800,160</b>	<b>1,721,273</b>	<b>-</b>	<b>2,521,433</b>
<b>Expenses</b>				
Sales and marketing	262,964	136,229	-	399,193
General and administration	158,722	239,920	705,712	1,104,354
Research and development costs	333,920	316,630	-	650,550
Government assistance and other funding	(60,000)	(562,218)	(423,503)	(1,045,721)
Share-based compensation	2,897	2,330	10,014	15,241
Finance costs	-	-	412,393	412,393
Depreciation and amortization	125,368	125,088	4,831	255,287
Other (gains) and losses	-	-	(40,992)	(40,992)
	823,871	257,979	668,455	1,750,305
<b>(Loss) earnings before income taxes</b>	<b>\$ (23,711)</b>	<b>1,463,294</b>	<b>(668,455)</b>	<b>771,128</b>

### 20. Comparative figures

Certain comparative figures have been reclassified to conform with the March 31, 2018 financial statement presentation.

### 21. Subsequent events

Subsequent to the balance sheet date, on May 16, 2018, it was announced that the Company will receive a repayable investment of up to \$7.6 million through the federal government Strategic Innovation Fund. The funding will be used to support research and development and will help to create and maintain employment by supporting the design and development of next generation aerospace and marine simulation and training products.