## Management's Discussion and Analysis of Results of Operations and Financial Condition
## For the nine months ended June 30, 2020.

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") of BPLI Holdings Inc. (formerly Bluedrop Performance Learning Inc.) ("BPLI", "the Corporation" or "the Company") provides the reader with a view and analysis, from the perspective of management, of BPLI's financial results for the nine months ended June 30, 2020, and should be read in conjunction with the Company's Condensed Consolidated Interim Financial Statements and notes thereto for the nine months ended June 30, 2020. All financial information has been prepared in accordance with International Financial Reporting Standards. All monetary amounts are stated in Canadian dollars. References to years are to the fiscal years ended September 30th unless otherwise noted. This MD&A has been prepared as of August 26, 2020.

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

### Caution Regarding Forward-Looking Information

*This MD&A 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 BPLI (as defined herein), as well as various assumptions and information currently available to BPLI. Although BPLI 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 MD&A includes, among other things, statements regarding BPLI's business objectives and growth strategies, expected developments, future payments of dividends, market conditions in the economy generally and BPLI'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 BPLI 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, including the rapidly evolving effects of the COVID-19 pandemic, 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 BPLI, reference should be made to the section in this MD&A entitled "Risk Factors", as well as BPLI's continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, including, but not limited to, BPLI's annual and interim management's discussion and analysis.*

*Any financial outlook or future-oriented financial information in this MD&A, as defined by applicable securities legislation, has been approved by management of BPLI as of the date of this MD&A. 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 MD&A.*

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

## COMPANY OVERVIEW

BPLI Holdings Inc. is the holding company for its investments in Bluedrop Training & Simulation and Bluedrop Learning Networks. Our companies are innovators in both the development of workplace e-learning and simulation as well as the way large organizations deliver, track and manage training. Our two divisions serve the world's leading aerospace and defence organizations as well as broad cross sections of organizations focused on managing system wide health and safety and developing the skills of external workforces. BPLI is creating the workforce of the future by improving the effectiveness, speed and cost of training delivery and management

Bluedrop Training & 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 & Simulation provides a full suite of products and services including training needs analysis and design, courseware and technical documentation, training information management systems, training program delivery, virtual reality based trainers and simulators and in-service support for larger simulators and programs. It services all branches of the defence sector including naval, air force and army operations as well as other security agencies.

Bluedrop Learning Networks is pioneering the development and adoption of a SaaS based training and delivery platform, *Bluedrop360™*, providing large scale customers with the ability to engage, track training and monitor training of large user groups spread out over multiple locations. The goal of these customers is often to digitize manual processes for large populations, even entire provinces or states. Our platform provides the complete service offering and solutions to meet the operational requirements of its clients including designing the training requirement, building custom content, and 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.

## NAME CHANGE

On October 4, 2019, it was announced that Bluedrop Performance Learning Inc. changed its name to BPLI Holdings Inc. This change took effect on March 10, 2020 following approval at the annual general meeting of the Corporation. The Corporation will continue to be the publicly listed parent company for its two operating subsidiaries.

## COVID-19

In March 2020, the World Health Organization declared coronavirus (COVID-19) as a global pandemic. This contagious disease outbreak resulted in governments worldwide enacting emergency measures to combat the spread of the virus, which includes the implementation of travel bans, self-imposed quarantine periods, and social distancing. These measures could impact the Company's operations whether through supply chain or demand. At this time, it is unknown the extent of the impact the COVID-19 pandemic may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate duration of the outbreak, including the duration of travel restrictions, business closures or disruptions and duration of quarantine/isolation measures put in place to fight the virus.

COVID-19 has had minimal impact on the business unit's operations to date, due to the Company's ability to implement measures such as working remotely from certain facilities and implementing appropriate social distancing and cleaning regimes in its remaining workplaces. However, the pandemic has caused significant uncertainty in the marketplace. As the pandemic continues, it is possible to see delays in contract procurement, project completion and other operating activities due to the ongoing pandemic. The Company may also experience disruption to ongoing contracts, including long-term in-service support contracts and delays in executing against strategic plans. Management is unable to determine the duration and magnitude of adverse impacts that may occur in future periods resulting from the outbreak.

## DISCUSSION OF OPERATIONS

### Bluedrop Training & Simulation

During the nine months ended June 30, 2020, the business unit earned revenue of $14.5 million, an increase of 21% compared to the same period in prior year of $12.0 million. The increase was primarily the result of increased activity in the in-service support revenue stream and an increase in courseware development revenue. In June 2019, the Company announced a US$2.2 million contract with Boeing to provide ongoing support which included courseware conversion services. Courseware development services increased as a result of revenues associated with multiple contracts awarded during the second quarter of fiscal 2019 as well as new contracts awarded during the third quarter of fiscal 2020.

The Bluedrop Training & Simulation business unit ended the quarter with an estimated revenue backlog[1] of $44.6 million.

On December 23, 2019, the Company received a contract extension in the amount of US$24.0 million to provide support services to the Maritime Helicopter Training Centre in Shearwater until March 2024.

The Company continues to develop its simulation technology products. On May 29, 2019, the Company announced plans to develop a V-22 Osprey Special Mission Aviator Ramp Trainer (SMART). The program is funded under the Innovation, Science and Economic Development Canada (ISED), Investment Framework Transaction program by Boeing. The program includes funding to Bluedrop Training & Simulation, engineering support from Boeing and a three-year commitment to support the development and ongoing sales of the new product within the Boeing global supply chain. The funding provided under the arrangement is US$2.6 million. The Company has incurred $1.9 million of cost to date associated with the development of the SMART up to June 30, 2020. During the nine months ended June 30, 2020 the Company recognized an equal amount of funding corresponding to these costs with the remainder deferred to fund future development costs associated with the simulator.

On March 26, 2020, the Company secured a $2.0 million funding contribution under the Atlantic Canada Opportunities Agency Regional Economic Growth through Innovation Program. The unsecured, non-interest-bearing loan is repayable in 96 monthly installments of $20,833 beginning on October 1, 2022. As at June 30, 2020 the Company has drawn $1.5 million of the funds. 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

### Bluedrop Learning Networks

During the nine months ended June 30, 2020, the Bluedrop Learning Networks business unit generated revenue of $4.3 million, an increase of 14% compared to the prior period of $3.8 million. The increase was primarily the result of revenue associated with a significant license agreement which commenced in the second quarter of the prior year.

The business unit continues to pursue multiple market opportunities and ended the quarter with an estimated revenue backlog[1] of $11.7 million.

During the nine months ended June 30, 2020, the Company secured $2.5 million in additional platform licensing contracts related to a provincial workforce program and a health and safety compliance program. Revenue recognition will commence during the fourth quarter of the fiscal year.

During the quarter, the business unit developed *COVID-19 Best Practices for a Safe Workplace* course which was officially launched on July 2, 2020 by the province of Newfoundland and Labrador. This courseware is part of the SkillsPassNL online training program.

The business unit continued research and development investments in enhancements to the *Bluedrop360™* platform resulting in $1.9 million of costs incurred during the nine months ended June 30, 2020.

### Corporate

During the nine months ended June 30, 2020, management continued to monitor financial requirements and maintained appropriate working capital and cash availability positions ending the period with cash of $6.5 million.

The Company has a short-term bank operating line of credit. During the first quarter the Company entered into an agreement to temporarily extend the capacity of the line of credit to a maximum of $3,500,000 and defined marginable accounts

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

receivable minus specified liabilities. The upper limit returned to $2,500,000 on March 15, 2020. The revolving facility is repayable on demand and bears interest at Royal Bank prime plus 2.20%. The balance was undrawn as at June 30, 2020.

The Company has multiple debt facilities with government entities. As a result of COVID-19, during the quarter ended June 30, 2020, the Company was provided three-month payment deferrals which extended payment terms by three months. There were no other changes to the existing terms and as a result the amendments were not assessed as substantial modifications.

The Company had a term loan from the Government of Nova Scotia bearing interest at 5.0% per annum which was secured against certain property. The facility was repayable in monthly principal payments of $16,579, plus interest, until May 2022. On June 30, 2020, the Company elected to repay the loan early. This resulted in a loss on settlement of $22,944.

On June 26, 2020, the Company received approval from the TSX Venture Exchange for a further normal course issuer bid to acquire up to an aggregate of 5,382,890 outstanding common shares during the period ended July 2, 2021, or on such earlier date as the Company may complete its purchases. No shares were purchased under the normal course issuer bid during the nine months ended June 30, 2020. Subsequent to the period ended June 30, 2020, the Company purchased 455,500 shares at an average cost per share of $0.11.

## ADOPTION OF NEW ACCOUNTING STANDARDS

(a) IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosures of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees, leases of 'low-value' assets and short-term leases (i.e. term of 12 months or less). At the commencement of a lease, a lessee will recognize a lease liability and a right of use asset representing the right to use the underlying asset during the lease term. This standard is effective for annual periods beginning on or after January 1, 2019, and the Company has adopted the standard on October 1, 2019.

The Company has elected to adopt the standard using the modified retrospective method and therefore comparative information for fiscal 2019 has not been restated. The Company has recognized new assets and liabilities for all leases that were previously classified as operating leases, other than those that were excluded due to the elected practical expedients. The Company applied the following practical expedients upon transition:

- The previous determination pursuant to IAS 17 and IFRIC 4, Determining Whether an Arrangement Contains a Lease, of whether a contract is a lease has been maintained for existing contracts;
- The Company exercised the option not to apply the new recognition requirements to short-term leases with a term of 12 months or less (and no purchase option) and leases of low-value assets;
- Initial direct costs will not be taken into account in the initial measurement of the right-of-use assets as at October 1, 2019;
- The Company relied on the assessment of whether leases are onerous immediately before the date of initial application;
- The Company elected to measure the right-of-use asset on a lease by lease basis at an amount equal to the lease liability, adjusted for previously recognized prepaid or accrued lease payments.

As at October 1, 2019, the Company recognized additional assets under Right-of-use assets and liabilities under Other liabilities on the consolidated statements of financial position of $2.5 million each. In addition, the nature of the expenses related to the lease has changed as IFRS 16 replaces the straight-line operating lease expense with depreciation expense for right-of-use assets and interest expense on the lease liabilities using the effective interest method.

The following table reconciles the operating lease payments as at September 30, 2019 to the lease liabilities recognized as at October 1, 2019:

| | | |
|---|---|---|
| **Minimum lease payments under operating leases as at September 30, 2019** | $ | 3,296,693 |
| Recognition exemption for: | | |
| Short-term leases | | (2,180) |
| Reasonably certain extension options | | 846,720 |
| Variable non-lease components | | (1,346,771) |
| Lease obligation as at October 1, 2019 (gross, without discounting) | | 2,794,462 |
| Effect from discounting at the incremental borrowing rate as at October 1, 2019 | | (281,062) |
| Liabilities recognized based on initial application of IFRS 16 as at October 1, 2019 | | 2,513,400 |
| Current portion of lease liabilities as at September 30, 2019 | | 18,010 |
| Long-term portion of lease liabilities as at September 30, 2019 | | 5,212 |
| **Total lease liabilities as of October 1, 2019** | $ | 2,536,622 |

Accounting Policy

At inception, the Company assess whether a contract is or contains a lease which involves the exercise of judgment. The company has elected not to separate lease and non-lease components for its right-of-use (ROU) assets. The Company has elected not to recognize ROU assets and lease liabilities for leases where the total lease term is less than 12 months, or for a lease of low value. The payments for these leases will be recognized on a straight-line basis over the lease term as operating expenses.

Lease assets are capitalized at the commencement date of the lease and ROU assets are initially measured on the present value of the lease payments, plus initial direct costs incurred when entering into a lease and lease payments made at or before the commencement date, less any lease incentives received. The ROU assets are depreciated over the shorter of the lease term or the estimated useful life of the underlying asset. An impairment review is undertaken for any ROU asset that shows indicators of impairment and an impairment loss is recognized against the ROU asset that is impaired.

The lease liability is measured at the present value of the fixed and eligible variable lease payments that depend on an index or rate, net of any lease incentives at the initial measurement date. When the lease contains an extension or purchase option that the Company considers reasonably certain to be exercised, the cost of the option is included in the lease payments. The present value of the lease payments is determined using the discount rate representing the Company's incremental borrowing rate on the lease commencement date, adjusted for the applicable currency of the lease contract, similar tenor and nature of the asset being lease. Variable lease payments that do not depend on an index or rate are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

(b) Annual Improvements to IFRS Standards (2015-2017) Cycle

On December 12, 2017 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendments are effective on or after January 1, 2019, with early application permitted. Each of the amendments has its own specific transition requirements. Amendments were made to the following standards:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - to clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12 Income Taxes – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI, or equity; and
- IAS 23 Borrowing Costs – to clarify that funds borrowed specifically to finance the construction of a qualifying asset should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed. They also clarify that an entity includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of general borrowings.

The Company has adopted these amendments on October 1, 2019. The amendments did not have any impact on its financial statements.

(c) IFRIC 23 Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. Earlier application is permitted. The Interpretation requires:

- an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Company has adopted these amendments on October 1, 2019. The amendments did not have any impact on its financial statements for the period ended June 30, 2020.

## FINANCIAL RESULTS OF OPERATIONS

The following tables and discussion compare BPLI Holdings Inc.'s operating results for the three and nine months ended June 30, 2020, to the same period in the prior fiscal year.

| | **Three Months Ended June 30** | | **Change (2020 vs. 2019)** | |
|---|---|---|---|---|
| (Canadian dollars in thousands) | **2020** | **2019** | **$** | **%** |
| **Revenue** | | | | |
| Courseware development services | 2,074 | 1,403 | 671 | 48% |
| In-service support | 2,910 | 2,788 | 122 | 4% |
| Software licensing and subscriptions | 1,303 | 1,065 | 238 | 22% |
| Simulation products | 192 | 1,591 | (1,399) | -88% |
| | 6,479 | 6,847 | (368) | -5% |
| **Direct costs** | 3,447 | 3,458 | (11) | 0% |
| **Gross profit** | 3,032 | 3,389 | (357) | -11% |
| Gross profit percentage | 47% | 49% | | |
| **Expenses** | | | | |
| Sales and marketing | 599 | 667 | (68) | -10% |
| General and administration | 1,563 | 1,491 | 72 | 5% |
| Research and development costs | 1,544 | 1,514 | 30 | 2% |
| Government assistance and other funding | (2,486) | (882) | (1,604) | 182% |
| Finance costs | 332 | 93 | 239 | 257% |
| Depreciation and amortization | 302 | 170 | 132 | 78% |
| Other (gains) and losses | 12 | 91 | (79) | -87% |
| | 1,866 | 3,144 | (1,278) | -41% |
| **Earnings before income taxes** | 1,166 | 245 | 921 | 376% |
| Income tax expense (recovery) | | | | |
| Current | 113 | - | 113 | 100% |
| Deferred | 357 | 103 | 254 | 247% |
| **Net earnings** | 696 | 142 | 554 | 390% |

| (Canadian dollars in thousands) | Nine Months Ended June 30 2020 | 2019 | Change (2020 vs. 2019) $ | % |
|---|---|---|---|---|
| **Revenue** | | | | |
| Courseware development services | 5,286 | 4,118 | 1,168 | 28% |
| In-service support | 8,944 | 7,398 | 1,546 | 21% |
| Software licensing and subscriptions | 3,534 | 2,504 | 1,030 | 41% |
| Simulation products | 1,029 | 1,739 | (710) | -41% |
| | 18,793 | 15,759 | 3,034 | 19% |
| **Direct costs** | 9,213 | 8,450 | 763 | 9% |
| **Gross profit** | 9,580 | 7,309 | 2,271 | 31% |
| Gross profit percentage | 51% | 46% | | |
| **Expenses** | | | | |
| Sales and marketing | 1,635 | 1,740 | (105) | -6% |
| General and administration | 4,040 | 4,579 | (539) | -12% |
| Research and development costs | 4,444 | 4,294 | 150 | 3% |
| Government assistance | (5,236) | (1,570) | (3,666) | 234% |
| Finance costs | 841 | 604 | 237 | 39% |
| Depreciation and amortization | 964 | 512 | 452 | 88% |
| Other (gains) and losses | (99) | 36 | (135) | -375% |
| | 6,589 | 10,195 | (3,606) | -35% |
| **Earnings before income taxes** | 2,991 | (2,886) | 5,877 | -204% |
| Income tax expense (recovery) | | | | |
| Current | 279 | - | 279 | 100% |
| Deferred | 1,034 | (797) | 1,831 | -230% |
| **Net earnings** | 1,678 | (2,089) | 3,767 | -180% |

## Revenue

For the three months ended June 30, 2020, revenues were $6,478,795 a decrease of $368,287 (5%) as compared to the same period in the prior year. For the nine months ending June 30, 2020 revenues were $18,792,480, an increase of $3,033,410 (19%) as compared to the same period in the prior year.

The following tables illustrate the change in revenues from each identified operating segment for the three and nine months ended June 30, 2020.

| | Three Months Ended June 30 2020 | % of total | 2019 | % of total | Change (2020 vs. 2019) $ | % |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| *Bluedrop Training & Simulation* | 4,887 | 75% | 5,466 | 80% | (579) | -11% |
| *Bluedrop Learning Networks* | 1,592 | 25% | 1,381 | 20% | 211 | 15% |
| | 6,479 | 100% | 6,847 | 100% | (368) | -5% |

| | Nine Months Ended June 30 2020 | % of total | 2019 | % of total | Change (2020 vs. 2019) $ | % |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| *Bluedrop Training & Simulation* | 14,472 | 77% | 11,958 | 76% | 2,514 | 21% |
| *Bluedrop Learning Networks* | 4,321 | 23% | 3,801 | 24% | 520 | 14% |
| | 18,793 | 100% | 15,759 | 100% | 3,034 | 19% |

During the nine months ended, the Training & Simulation business saw an increase in revenues compared to the same period in prior year which was primarily due to an increase in revenues from new in-service support contracts and courseware development services revenue. In June 2019, the Company announced a US$2.2 million contract with Boeing to provide ongoing support which included courseware conversion services. Courseware development services increased as a result of revenues associated with multiple contracts awarded during the second quarter of fiscal 2019 as well as new contracts awarded during the third quarter of fiscal 2020. This increase was offset by a decrease in simulation products revenue in the third quarter of fiscal 2020. The majority of the Company's simulation product projects were completed during the second quarter of this period.

The Bluedrop Learning Networks operations had higher revenue for the nine months ended June 30, 2020 compared to the same period in prior year as a result of a platform licensing revenue associated with a major provincial government program commencing during the second quarter in fiscal 2019.

The following tables illustrate the change in revenues from each major service or product category for the nine months ended June 30, 2020.

| | Nine Months Ended June 30 | | | | Change (2020 vs. 2019) | |
|---|---|---|---|---|---|---|
| | 2020 | % of total | 2019 | % of total | $ | % |
| **Revenue** | | | | | | |
| *Courseware development services* | 5,286 | 28% | 4,118 | 26% | 1,168 | 28% |
| *In-service support* | 8,944 | 48% | 7,398 | 47% | 1,546 | 21% |
| *Software licensing and subscriptions* | 3,534 | 19% | 2,504 | 16% | 1,030 | 41% |
| *Simulation products* | 1,029 | 5% | 1,739 | 11% | (710) | -41% |
| | 18,793 | 100% | 15,759 | 100% | 3,034 | 19% |

During the nine months ended June 30, 2020, courseware development services increased as a result of revenues associated with multiple contracts awarded during the second quarter of fiscal 2019 as well as new contracts awarded during the third quarter of fiscal 2020. In-service support revenues increased as a result of a new contract being awarded to support the CH-147F Helicopter program and an extension of the existing contract at the Maritime Helicopter Training Centre in Shearwater. In addition, favorable foreign exchange fluctuations resulted in an increase in US denominated in-service support revenues.

The Company increased software licensing revenues primarily as a result of a license arrangement associated with a major provincial government program being recognized subsequent to the prior period first quarter.

Simulation products revenue decreased as a result of the Company completing the contract to deliver a Hoist Mission Training System (HMTS) to the Royal Canadian Air Force as well as the $1.0 million contract through the Build in Canada Innovation Program to deliver a vehicle crew gunnery simulator during the second quarter of fiscal 2020.

The Company continues to make significant advances in developing its core product technologies, however there have been some delays in procuring new contracts as a result of the on-going COVID-19 Pandemic due to restrictions on travel.

### Direct costs

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

For the three months ended June 30, 2020, total direct costs were $3,446,629 a decrease of $11,700 (0%) over the same quarter in the prior year. For the nine months ended June 30, 2020 total direct costs were $9,212,855 an increase of $763,135 (9%) over the period in the prior fiscal year. The increase in fiscal 2020 is primarily due to an increase in costs associated with in-service support revenues and costs associated with lower margin courseware development services in the third quarter.

### Gross profit

For the three months ended June 30, 2020, gross profit was $3,032,166 a decrease of $356,587 (11%) over the same period in the prior year. The reported gross profit percentage for the three months ended June 30, 2020, was 47% as compared to 49% for the same period in the prior year.

For the nine months ended June 30, 2020, gross profit was $9,579,625 an increase of $2,270,275 (31%) over the same period in the prior year. The reported gross profit percentage for the nine months ended June 30, 2020, was 51% as compared to 46% for the same period in the prior year.

The Bluedrop Training & Simulation business unit gross profit for the nine months ended June 30, 2020, was $6,431,974 versus $4,811,522 for the same period in the prior year. The gross profit percentage was 44% for the current period versus 40% for the prior period. The increase is primarily due to increased utilization in fiscal 2020. The lower gross profit in the prior year is a result of contract delays on several projects in fiscal 2019.

The Bluedrop Learning Networks business unit gross profit for the nine months ended June 30, 2020 was $3,147,651 as compared to $2,497,828 for the same period in the prior year. The gross profit percentage was 73% for the current period versus 66% for the prior period. The increase in gross profit percentage was primarily due to an increase in higher margin licensing revenues during the period.

### Sales and marketing

For the three months ended June 30, 2020, sales and marketing expenses were $599,138 a decrease of $67,790 (10%) over the same period in the prior year. For the nine months ended June 30, 2020, sales and marketing expenses were $1,634,747 a decrease of $105,430 (6%) over the same period in the prior year. The overall decrease in costs was primarily due to expenditures related to exploratory sales initiatives in fiscal 2019 and timing of trade shows as well as travel restrictions and cancelled tradeshows in the second and third quarter of fiscal 2020 due to the COVID-19 pandemic.

### General and administration

For the three months ended June 30, 2020, general and administration expenses were $1,562,673 an increase of $71,907 (5%) over the same period in the prior year. For the nine months ended June 30, 2020, general and administration expenses were $4,039,701 a decrease of $539,195 (12%) over the same period in the prior year. In the prior year, the Company incurred higher professional fees associated with strategic planning and reorganizational activities. Additionally, the Company recognized a decrease in occupancy costs as a result of the adoption of IFRS 16 leasing standard. Certain occupancy costs are now recognized under depreciation and amortization and finance costs.

### Research and development costs

For the three months ended June 30, 2020, research and development costs were $1,544,041 an increase of $29,649 (2%) over the same period in the prior year. For the nine months ended June 30, 2020, research and development costs were $4,444,140 an increase of $150,459 (4%) over the same period in the prior year. The Company continues to invest in research in development costs associated with development of additional functionality with the *Bluedrop360™* platform as well as expenditures related to future simulation products.

The Training & Simulation business unit invested $2,578,548 (2019 - $1,754,061) during the nine months ended June 30, 2020 for costs associated with the development of future simulation products. On May 29, 2019, the Company announced plans to develop a V-22 Osprey Special Mission Aviator Ramp Trainer. The program is funded under the Innovation, Science and Economic Development Canada (ISED) Investment Framework Transaction program by Boeing. The program includes funding to Bluedrop, engineering support from Boeing and a three-year commitment to support the development and ongoing sales of the new product within the Boeing global supply chain. The funding provided under the arrangement is US$2.6 million.

In addition, the Learning Networks business unit invested $1,865,592 (2019 - $2,539,620) during the nine months ended June 30, 2020 for costs mostly associated with enhancements to the in service *Bluedrop360™* platform. Additionally, the business unit developed *COVID-19* courseware. The province of Newfoundland and Labrador launched *COVID-19 Best Practices for a Safe Workplace* course on July 2, 2020. This courseware is part of the SkillsPassNL online training program.

### Government assistance and other funding

For the three months ended June 30, 2020, government assistance and other funding included in income was $2,486,273 an increase of $1,604,684 (182%) over the same period in the prior year. For the nine months ended June 30, 2020, government assistance and other funding included in income was $5,236,071 an increase of $3,666,527 (234%) over the same period in the prior year.

During the nine months ended June 30, 2020, the Company recognized $2,134,548 (2019 - $516,717) of government assistance associated with discounts on below-market interest rate debt associated with funds drawn under the Strategic Innovation Fund and the Atlantic Canada Opportunity Agency Regional Economic Growth through Innovation Program. In addition, the Company recognized $462,372 in funding from the National Research Council (2019 – $312,542) and $483,628 of funding from provincial digital media tax credit programs (2019 – $562,252). The Learning Networks business unit recognized $253,201 of government assistance associated with the COVID-19 Canada Emergency Wage Subsidy during the three months ended June 30, 2020.

On May 29, 2019, the Training & Simulation business unit and the Boeing entered into an agreement whereby Boeing would contribute US$2.6 million to the Company to support the development of the next generation Special Mission Aviator Ramp

Trainer (SMART) for the V-22 Osprey. The Company has incurred $1,862,360 (including $946,467 in the prior periods) of cost associated with the development of the SMART up to June 30, 2020. During the nine months ended June 30, 2020 the Company recognized an equal amount of funding corresponding to these costs with the remainder deferred to fund future development costs associated with the simulator.

### Finance costs

For the three months ended June 30, 2020, finance costs were $331,680, an increase of $238,648 (257%) over the same quarter in the prior period. For the nine months ended June 30, 2020, finance costs were $840,511, an increase of $236,647 (39%) over the same quarter in the prior period.

During the nine months ended June 30, 2020, the Company revalued the unsecured royalty obligation due to a change in timing of forecasted future cash flows and as a result recognized a gain of $179,485 (2019 - $328,280). The remainder of the increase is a result of the adoption of the new lease standard, IFRS 16 which resulted in interest expense of $72,063 recognized during the period.

### Depreciation and amortization

For the three months ended June 30, 2020, depreciation and amortization expense was $302,088 an increase of $131,920 (78%) over the same quarter in the prior year. For the nine months ended June 30, 2020, depreciation and amortization expense was $964,307, an increase of $452,475 (88%) over the same quarter in the prior year.

The increase in depreciation is a result of property and equipment additions associated with infrastructure upgrades and a new production and innovation center in Halifax during the prior year resulting in higher depreciation commencing in late fiscal 2019. Additionally, during fiscal 2020, the Company adopted the new lease standard, IFRS 16 which resulted in a $372,487 increase in depreciation expense.

### Other gains and losses

Included in other gains and losses are realized and unrealized gains and losses as a result of foreign exchange rate fluctuations, gains and losses as a result of disposal of assets, as well as expenses and recoveries related to bad debt.

For the three months ended June 30, 2020, the Company recorded a loss of $12,117, compared to $91,083 during the same quarter in the prior year. For the nine months ended June 30, 2020, the Company recorded a gain of $98,844, compared to a loss of $36,088 during the same period in the prior year. The change is primarily due to foreign exchange rate fluctuations. Additionally, during the quarter, the Company elected to repay the remainder of the loan from the Government of Nova Scotia bearing interest at 5.0% per annum which was secured against certain property. The facility was repayable in monthly principal payments of $16,579, plus interest, until May 2022. This resulted in a loss on settlement of $22,944.

### Income taxes

For the three months ended June 30, 2020, current income tax recovery was $113,332 compared to nil in the same period in the period year. For the nine months ended June 30, 2020, current income tax expense was $279,494 compared to nil in the same period in the prior year.

For the three months ended June 30, 2020, deferred income tax expense was $356,692 as compared to $102,330 in the same period in the prior year. For the nine months ended June 30, 2020, deferred income tax expense was $1,034,267 as compared to a recovery of $796,623 in the same period in the prior year.

The income tax expense in the period was higher than would be expected as the Company has not recognized tax assets associated with losses generated in the Bluedrop Learning Networks subsidiary. The tax losses are available should the Company determine they can be utilized in a future period.

## QUARTERLY INFORMATION

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

(Canadian dollars in thousands)

| Fiscal year | 2020 | 2020 | 2020 | 2019 | 2019 | 2019 | 2019 | 2018 |
|---|---|---|---|---|---|---|---|---|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| | Jun-30 | Mar-31 | Dec-31 | Sep-30 | Jun-30 | Mar-31 | Dec-31 | Sep-30 |
| **Revenue** | | | | | | | | |
| *Bluedrop Training & Simulation* | $ 4,887 | $ 4,775 | $ 4,809 | $ 5,790 | $ 5,466 | $ 3,640 | $ 2,853 | $2,644 |
| *Bluedrop Learning Networks* | $ 1,592 | $ 1,396 | $ 1,333 | $ 1,469 | $ 1,381 | $ 1,383 | $ 1,036 | $1,165 |
| | 6,479 | 6,171 | 6,142 | 7,259 | 6,847 | 5,023 | 3,889 | 3,809 |
| **Direct costs** | 3,447 | 2,827 | 2,939 | 3,733 | 3,458 | 2,668 | 2,323 | 2,052 |
| **Gross profit** | 3,032 | 3,344 | 3,203 | 3,526 | 3,389 | 2,355 | 1,566 | 1,757 |
| Gross profit percentage | 47% | 54% | 52% | 49% | 49% | 47% | 40% | 46% |
| **Expenses** | | | | | | | | |
| Sales and marketing | 599 | 542 | 494 | 610 | 667 | 510 | 564 | 469 |
| General and administration | 1,563 | 1,201 | 1,276 | 1,379 | 1,491 | 1,832 | 1,257 | 1,057 |
| Research and development costs | 1,544 | 1,628 | 1,272 | 1,179 | 1,514 | 1,610 | 1,169 | 858 |
| Government assistance | (2,486) | (792) | (1,958) | (970) | (882) | (435) | (253) | (1,066) |
| Finance costs | 332 | 161 | 348 | 388 | 93 | 218 | 293 | 226 |
| Depreciation and amortization | 302 | 328 | 334 | 206 | 170 | 171 | 171 | 173 |
| Other gains and losses | 12 | (192) | 81 | 16 | 91 | - | (55) | (9) |
| | 1,866 | 2,876 | 1,847 | 2,808 | 3,144 | 3,906 | 3,146 | 1,708 |
| **Earnings (loss) before income taxes** | 1,166 | 468 | 1,356 | 718 | 245 | (1,551) | (1,580) | 49 |
| Income tax expense (recovery) | | | | | | | | |
| Current | 113 | (39) | 205 | - | - | - | - | - |
| Deferred | 357 | 309 | 368 | 2,988 | 103 | (458) | (441) | 180 |
| **Net earnings** | 696 | 198 | 783 | $(2,270) | $ 142 | $(1,093) | $(1,139) | $ (131) |

### Fiscal 2020

During the third quarter of fiscal 2020, the Company saw an increase in revenues over the second quarter. Courseware development services were higher in the third quarter compared to the second quarter as a result of a contract being awarded which was previously recognized as work-in-progress on the balance sheet. This amount was transferred to revenue upon signing of the contract. Gross profit as a percentage of revenue was lower this quarter compared to the second quarter due to the previous quarter favorable foreign exchange fluctuations. Government assistance increased during the quarter compared to comparative quarters as a result of $1.7 million of government assistance associated with discounts on below-market interest rate debt associated with funds drawn under the Strategic Innovation Fund and the Atlantic Canada Opportunity Agency Regional Economic Growth through Innovation Program. The Learning Networks business unit also recognized $0.3 million of government assistance associated with the COVID-19 Canada Emergency Wage Subsidy during the three months ended June 30, 2020. Net finance costs in the prior quarter were lower due to the revaluation of the unsecured royalty obligation due to a change in timing of forecasted future cash flows. The change in Other gains and losses relates to foreign exchange fluctuations.

During the second quarter of fiscal 2020, the Company saw consistent revenues compared to the first quarter. In-service support revenues were higher in the second quarter compared to the first quarter due to higher support delivery in the second quarter combined with favorable foreign exchange fluctuations resulting in an increase in US denominated in-service support revenues. Revenues from courseware development and simulation products were lower in the second quarter compared to the first quarter in fiscal 2020 due to large contracts wrapping up earlier in the quarter. Research and Development for the period increased compared to all comparative quarters due to continued enhancements associated with development of additional functionality with the *Bluedrop360™* platform as well as increased expenditures related to future simulation products. Government assistance decreased substantially from the prior quarter. In the prior period the Company finalized the funding agreement with Boeing resulting in higher government assistance during the first quarter. The prior quarter also included significant government funding from a variety of programs including the National Research Council, Digital Media

Tax Credit Programs, and discounts on below market interest rate loans. The Company recognized a gain in the quarter due to favorable foreign exchange fluctuations during the period.

During the first quarter of fiscal 2020, the Company saw a decrease in revenues over the fourth quarter in prior year due to multiple simulation revenue contracts nearing completion during the quarter. Additionally, in-service support revenues were lower in the first quarter compared to the fourth quarter 2019 due to higher support delivery in the fourth quarter of prior year. The Company was awarded a further extension during the quarter to provide support services to the Maritime Helicopter Training Centre in Shearwater through to March 2024 with a value of US$24.0 million. Additionally, the Company finalized funding from Boeing to support the development of the next generation special mission aviator ramp trainer which was recognized as government assistance and other funding during the quarter. Income tax expense increased during the quarter as a result of recognizing a profit during the quarter compared to a loss in the same period in prior year.

### Fiscal 2019

During the fourth quarter of fiscal 2019, the Company saw an increased level of revenue and direct costs compared to previous quarters in 2019 as a result of an increase in in-service support revenues. The Company announced a US$2.2 million contract to provide ongoing support to Canada's CH-147F program. In addition, the business unit received a nine-month extension to provide support services to the Maritime Helicopter Training Centre in Shearwater. The quarter also saw an increase in finance costs as a result of the revaluation of the ACOA-AIF unsecured royalty obligations. Income tax expense increased significantly during the quarter due to a valuation allowance against future tax assets of Bluedrop Learning Networks in the amount of $2.8 million.

During the third quarter of fiscal 2019, the Company saw an increased level of revenue and direct costs compared to the first and second quarters as a result of improved utilization and increased simulation product activities. The Company continued ongoing research and development of the *Bluedrop360™* platform and future simulation products.

During the second quarter of fiscal 2019, the Company reported an increased level of revenue and direct costs compared to the first quarter as a result of improved utilization and increased software licensing in the period. Gross margin percentage increased as a result of a change in product mix associated with the delivery against higher margin projects. General and administrative expenses increased in this quarter as a result of increased professional fees related to strategic planning and reorganizational activities. The quarter also saw an increase in research and development costs over the first quarter. This was a result of increased research and development for the Training & Simulation business unit related to future simulation projects.

During the first quarter of fiscal 2019, the Company saw a decreased gross profit reflective of delays in several procurements which impacted contract awards and delayed revenue during which the Company maintained its existing resource base. Research and Development for the period increased substantially compared to all comparative quarters due to increased expenditures associated with development of additional functionality with the *Bluedrop360™* platform as well as increased expenditures related to future simulation products. Government assistance decreased substantially from the prior quarter. The prior quarter included significant government funding from a variety of programs including the National Research Council, Digital Media Tax Credit Programs, and discounts on below market interest rate loans.

### Fiscal 2018

During the fourth quarter of fiscal 2018, the Company saw a decreased level of revenue and direct costs. The gross profit percentage of 46% is consistent with the prior quarter, and higher than the first two quarters of the fiscal year as lower margin simulator projects were completed in the first half of the fiscal year. Government assistance increased substantially from the prior quarter. The increase was primarily due to an increase in discounts on below-market interest rate debt of $0.5 million associated with funds drawn against the Strategic Innovation Fund facility.

## LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended June 30, 2020, the Company generated cash of $7,345,048 (2019 – consumed $2,235,452).

### Operating activities

For the nine months ended June 30, 2020, the Company generated cash from operating activities of $5,948,709 compared to $1,112,784 consumed for the same period in the prior year.

Changes in non-cash working capital related to operating activities generated cash of $3,711,202 during the period. This was primarily driven by a decrease in accounts receivables of $2,686,482, an increase in deferred development funding from Boeing of $1,054,532. In addition, contract liabilities increased by $971,678 and contract assets decreased by $329,676 due to timing of product billing milestones. This was offset by a decrease in accounts payable of $1,123,783 due to timing of payments near year end.

### Investing activities

For the nine months ended June 30, 2020, the Company consumed cash of $299,983 from investing activities compared to $868,053 for the same period in the prior year. During the first nine months of fiscal 2019, the increased cash consumed was a result of the purchase of property and equipment in the period associated with infrastructure upgrades and a new production and innovation center in Halifax.

### Financing activities

For the nine months ended June 30, 2020, the Company generated cash of $1,696,322 in financing activities as compared to $254,615 consumed from financing activities for the same period in the prior year.

During the period, the Company repaid long term debt totaling $897,555 and drew an additional $1,680,872 of funding against the Strategic Innovation Fund facility. The Company also drew $1,534,960 of funding under the Atlantic Canada Opportunities Agency Regional Economic Growth through Innovation Program. The Company also paid a total of $417,363 in lease obligations during the nine months period ending June 30, 2020.

### Cash and credit availability

As at June 30, 2020, the Company held cash of $6,496,554.

The Company has a short-term bank operating line of credit. During the first quarter the Company entered into an agreement to temporarily increase the line of credit to a maximum of the lesser of $3,500,000 and defined marginable accounts receivable minus specified liabilities. By agreement with the bank, the upper limit of the credit facility was reduced to $2,500,000 on March 15, 2020. The revolving 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. As at June 30, 2020, the Company has no balance drawn against the line of credit (September 30, 2019 - $45,000).

## CONTRACTUAL OBLIGATIONS

The following table contains a summary of the Company's contractual obligations and commitments to make future payments under contracts including debt and lease obligations at June 30, 2020:

| **Scheduled payments due by period**<br>(Canadian dollars in thousands) | **Long term debt** | **Lease liabilities** | **Total** |
|---|---|---|---|
| 2020 (Year ended September 30th) | 150 | 222 | 372 |
| 2021 | 600 | 893 | 1,493 |
| 2022 | 600 | 592 | 1,192 |
| 2023 | 792 | 521 | 1,313 |
| 2024 | 342 | 447 | 789 |
| Thereafter | 5,877 | - | 5,877 |
| | $ 8,361 | $ 2,675 | $ 11,036 |

In addition to the above, the Company has royalty obligations under an unsecured royalty arrangement. BPLI is required 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 of all amounts owing upon payment of $2,000,000.

Further, on two additional royalty arrangements, the Company must repay annual instalments of 5% of the gross revenue generated from products and product related services resulting from the research funding by Atlantic Canadian Opportunities Agency – Atlantic Innovation Fund (ACOA – AIF). The Company has recognized 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. As of June 30, 2020, $531,477 (September 30, 2019 - $531,477) has been repaid.

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and liabilities are exposed to various risk factors that may affect the fair value presentation of the amount ultimately received or paid on settlement of its assets and liabilities. A summary of the major financial instrument risks and the Company's approach to management of these risks are outlined below:

### Interest rate risk

The Company's obligations under finance leases are at fixed interest rates. All remaining long term debt is non-interest bearing. As at June 30, 2020, the Company was in compliance with contract terms associated with long-term debt arrangements. As such, the Company's exposure to fluctuations in interest rates is not considered material.

### Currency risk

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 nine months ended June 30, 2020, the Company recorded a $115,201 gain on foreign currency (2019 - $56,011 loss). The Company monitors fluctuations in exchange rates and uses derivative instruments to reduce its exposure to foreign currency risk.

During the nine months ended June 30, 2020, the Company recorded revenue of $8,034,989 from contracts denominated in US dollars (2019 - $6,995,669).

As at June 30, 2020, the Company held receivables of $2,039,358 from contracts denominated in US dollars (September 30, 2019 - $3,528,659).

As at June 30, 2020, the Company held 4 outstanding foreign exchange contracts with various maturities to October 2020 to sell US$2.0 million into Canadian dollars at rates averaging CA$1.41. On June 30, 2020, the Company recorded a derivative asset of $115,062 included in other current assets representing the fair value of these outstanding contracts.

### Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. The Company's maximum exposure to credit risk corresponds to the carrying value of accounts receivable and unbilled revenue. Two customers accounted for 46% of revenue (2019 – two customers - 46%) and four customers accounted for 80% of the Company's trade receivables at June 30, 2020 (September 30, 2019 – two customers - 62%).

An allowance for doubtful accounts is established based a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The allowance for doubtful accounts at June 30, 2020, was $238,961 (September 30, 2019 - $258,483). At June 30, 2020, the Company's trade accounts receivable included amounts over 90 days old totaling $942,118 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (September 30, 2019 - $921,404).

### Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains a committed credit facility to ensure that it has sufficient funds to meet current and foreseeable future financial requirements at a reasonable cost.

The Company's future commitments are outlined above under contractual obligations.

## SHARE INFORMATION

As at August 26, 2020 the Company has 107,440,793 common shares outstanding, including 238,500 shares held in treasury pending cancellation under the normal course issuer bid.

The Company has reserved a maximum of 6,729,201 common shares of the Company for issuance on the exercise of share options under a stock option plan. As at August 26, 2020 no share options were issued or outstanding under the plan.

## NORMAL COURSE ISSUER BID

On June 26, 2020 the Company received approval from the TSX-Venture Exchange for a normal course issuer bid to acquire up to an aggregate of 5,382,890 outstanding common shares of the Company. Such purchases will be made through the facilities of the TSX-Venture Exchange. Shareholders may obtain a copy of the Notice of Intention to make a normal course issuer bid filed by the Company with the TSX-Venture Exchange in respect of the bid, without charge, by contacting the Company. The bid will expire on July 2, 2021, or on such earlier date as the Company may complete its purchases pursuant to the notice of intention to make a bid filed with the TSX-Venture Exchange.

During the period subsequent to June 30, 2020 and prior to August 26, 2020 the Company purchased 455,500 shares at an average cost per share of $0.11. The Company has been advised by the broker for the normal course issuer bid that 238,500 common shares of the Company have been purchased but not are not yet canceled as of August 26, 2020.

## COMPANY TIER RECLASSIFICATION

Concurrently with the application by the Company in respect of a notice of intention to make a normal course issuer bid on June 25, 2020 the Company made application to be classified as a Tier 2 issuer, which application was accepted by the TSX-Venture Exchange effective July 3, 2020. The Company determined that it would be appropriate to seek a movement to Tier 2 to reflect the current level of common shares held by the Public (as defined in the Policies of the TSX-Venture Exchange) and in recognition that the normal course issuer bid may further reduce the public float.

## RELATED PARTY TRANSACTIONS

Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant related party transactions are reviewed and approved by the Audit Committee of the Board. The following is a summary of related party transactions during the nine months ended June 30, 2020:

- Included in Other liabilities on the consolidated statement of financial position is a lease obligation of $1,000,890 for the rental of premises from a company controlled by Emad Rizkalla, the Company's President & Chief Executive Officer. The Company adopted IFRS 16, and as a result, for the nine months ended June 30, 2020, rent expense is included under general and administration occupancy expenses, finance costs and depreciation and amortization in the amounts of $96,908, $32,130 and $140,625 respectively on the consolidated statement of comprehensive income (loss). Effective October 1, 2011 the Company entered into a 6-year lease, with a 4-year renewal option, for 100% of the premises available for lease at 18 Prescott Street, St. John's, NL. 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 periodically thereafter.

- The Company recognized an expense of $834,490 for the nine months ended June 30, 2020 (2019 - $723,778) for fees, salaries and benefits to its key management personnel for services rendered. Key management is considered to be members of the Board of Directors, the President & Chief Executive Officer, the Chief Financial Officer and the Corporate Secretary.

- 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. On December 30, 2019, the Company amended the terms of the share purchase loans to extend the maturity dates to December 31, 2021. As at June 30, 2020, the aggregate balance of the notes was $169,816 (September 30, 2019 - $169,816) maturing on December 31, 2021. The loan is included in other long-term assets on the statements of financial position (September 30, 2019 - other current assets).

## ACCOUNTING ESTIMATES

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

### Significant management judgements

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

(a) Revenue recognition

Revenue from courseware development services and simulation products contracts is recognized over time using the input cost method, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Judgement is used in determining the estimates of costs to complete. The Company employs sophisticated project management tools to assist with the initial forecasting, management of projects and the recognition of revenue over time using the input cost method. Management regularly reviews the systems, processes, and calculations relating to percentage completion on significant contracts, making adjustments as required.
The Company often enters into contracts with customers involving multiple performance obligations, which may include a combination of courseware development services, in-service support, software licensing and subscriptions, manufacturing of simulation products, as well as the provision of training services, spare parts and maintenance. When a single sales transaction requires the delivery of more than one product or service (multiple performance obligations), the revenue recognition criteria are applied to the separately identifiable performance obligations. A component is considered separately identifiable if they are capable of being distinct, e.i., if the delivered item has value to the customer on a stand-alone basis.

The consideration received from multiple-component transactions is allocated to each separately identifiable performance obligation on the basis of its stand-alone selling price, or based on the residual method, if the stand-alone selling price cannot be determined.

(b) Income taxes

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

The Company has recognized deferred tax assets in the Company's financial statements as at June 30, 2020. Management considers that it is more likely than not that these tax assets will be realized. The ultimate realization of these assets is dependent upon the Company's ability to generate sufficient taxable income to offset the tax losses carried forward as well as the reversal of the differences between the carrying amount of items on the statement of financial position and their corresponding tax basis. If future circumstances indicate that it is no longer probable that these tax assets will be realized, the carrying value of the tax asset will be reduced, resulting in a charge against income and a reduction of equity.

(c) Government assistance

The Company receives government assistance pursuant to specific contractual funding agreements and is also eligible to receive cash tax credits under the Scientific Research and Experimental Development (SRED) and Digital Media Tax Credit (DMTC) programs. Claims relating to specific funding agreements are based on the defined eligible costs pursuant to the agreements. Contributions are recognized when the related expenditures are incurred and/or when significant milestones have been achieved in a funded project.
Credits under the SRED and DMTC programs are recorded when amounts can be reasonably estimated, and receipt is reasonably assured. Government assistance may be overstated if the underlying project is determined to be ineligible or if certain costs claimed are determined to be ineligible.

(d) Development costs

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

(e) Classification of financial arrangements

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

(f) Deferred development funding

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

## Estimation uncertainty

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

(a) Impact of COVID-19 Global Pandemic

In March 2020, the World Health Organization declared coronavirus (COVID-19) as a global pandemic. This contagious disease outbreak resulted in governments worldwide enacting emergency measures to combat the spread of the virus, which includes the implementation of travel bans, self-imposed quarantine periods, and social distancing. These measures could impact the Company's operations whether through supply chain or demand. Although the ultimate duration and impacts of the COVID-19 pandemic are not currently known, management has used the best data available as at June 30, 2020 in determining its estimates and the assumptions that affect the carrying amounts of assets and liabilities, and reported earnings for the period. Actual results could differ from those estimates. The estimates that the Company considers could be most significantly impacted by COVID-19 include revenue recognition and impairment of financial assets.

(b) Fair value of financial liabilities

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

(c) Impairment of non-financial assets

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

(d) Revenue recognition

Revenue from courseware development services and simulation products is recognized over time using the cost input method, measured by the costs incurred to date to the estimated total costs for each contract. Changes to the estimated costs to complete could have a material impact on the carrying values of unbilled revenue or deferred revenue and a material impact on future revenue.

The Company often enters into contracts with customers involving the supply of multiple products and services. The total contract price is allocated to each separate identifiable performance obligation on the basis of its stand-along selling price based on estimated total cost for each performance obligation. Changes to the estimated costs could have a material impact on the carrying values of unbilled revenue or deferred revenue and a material impact on future revenue.

(e) Work in progress

Work in progress is stated at cost and includes direct labour and materials relating to ongoing internal projects. Management expects to enter into contracts and earn profits from work in progress costs at margins for similar products and services. To the extent management does not expect to recover the work in progress costs, they are expensed in the statement of operations.

(f) Income tax expense

Management has made certain estimates related to income tax filing positions subject to acceptance by the tax authorities. Changes in these assumptions may result in a material change to taxes payable and income tax expense.

(g) Impairment of financial assets

In assessing impairment, management estimates the recoverable amount of financial assets based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Changes in these assumptions could have a material impact on the carrying value of financial assets and bad debt expense.

## NEW AND FUTURE ACCOUNTING STANDARDS

The following new or amended standards are effective for annual periods beginning on or after the dates indicated below, with earlier adoption permitted. The Company has not early adopted these standards and is currently assessing the impact they will have on its consolidated financial statements.

(a) Amendments to References to the Conceptual Framework in IFRS Standards

On March 29, 2018 the IASB issued a revised version of its Conceptual Framework for Financial Reporting (the Framework), that underpins IFRS Standards. The IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards (the Amendments) to update references in IFRS Standards to previous versions of the Conceptual Framework. Both documents are effective from January 1, 2020 with earlier application permitted.

Some Standards include references to the 1989 and 2010 versions of the Framework. The IASB has published a separate document which contains consequential amendments to affected Standards so that they refer to the new Framework, with the exception of IFRS 3 Business Combinations which continues to refer to both the 1989 and 2010 Frameworks.

The Company does not intend to adopt the Amendments in its financial statements before the annual period beginning on October 1, 2020. The extent of the impact of the change has not yet been determined.

(b) Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to include decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendments to the definition of material is not expected to have a significant impact on the Company's consolidated financial statements.

## NON-GAAP FINANCIAL MEASURES

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

(a) Backlog

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

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles. TSX Venture-listed companies are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in Multinational Instrument MI 52-109.

In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) processes to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with the issuer's GAAP.

## RISK FACTORS

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

(a) The Company's revenue and operating results can be negatively impacted by COVID-19 global pandemic

In March 2020, the World Health Organization declared coronavirus (COVID-19) as a global pandemic. This contagious disease outbreak resulted in governments worldwide enacting emergency measures to combat the spread of the virus, which includes the implementation of travel bans, self-imposed quarantine periods, and social distancing. These measures could impact the Company's operations whether through supply chain or demand. At this time, it is unknown the extent of the impact the COVID-19 pandemic may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate duration of the outbreak, including the duration of travel restrictions, business closures or disruptions and duration of quarantine/isolation measures put in place to fight the virus.

As the pandemic continues, it is possible to see delays in contract procurement, project completion and other operating activities due to the ongoing pandemic. The Company may also experience disruption to ongoing contracts, including long-term in-service support contracts and delays in executing against strategic plans. Management is unable to determine the duration and magnitude of adverse impacts that may occur in future periods resulting from the outbreak.

(b) The Company's revenue and operating results can be difficult to predict and can fluctuate, which may harm results of operations

BPLI's revenue is difficult to forecast and may fluctuate from quarter to quarter. In addition, BPLI's operating results may not follow any past trends. The factors affecting BPLI's revenue and results, many of which are outside of BPLI'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 BPLI's strategic initiatives or BPLI's competitors, new products or services, product or services announcements and changes in BPLI's pricing policy or BPLI's competitors;
- market acceptance of BPLI's products and services;
- BPLI's ability to maintain existing relationships and to create new relationships with channel partners;
- varying size, timing and contractual terms of orders for BPLI's products and services, which may delay the recognition of revenues;
- the discretionary nature of purchase and budget cycles of BPLI'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 BPLI's products;
- BPLI's strategic decisions or BPLI'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 BPLI'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 BPLI's simulator training systems; and
- timing of product development and new product initiatives.

Because BPLI'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 BPLI to plan or budget inaccurately, and those variations could adversely affect BPLI's financial results. Delays, reductions in the amount or cancellations of end-user's purchases would adversely affect BPLI's business, results of operations and financial condition.

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

(c) Failure to manage BPLI's business or growth successfully may adversely affect its operating results

BPLI's ability to manage its business will be substantially dependent upon BPLI'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, BPLI's future results of operations will depend on the continuing ability of BPLI's officers and other key employees to conduct business effectively and to improve operations. BPLI'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 BPLI's business, results of operations and financial condition.

(d) BPLI'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, BPLI must enhance and improve existing products and services and also continue to introduce new products and services. If BPLI is unable to successfully develop new products and services or enhance and improve its existing products and services or if BPLI fails to position and/or price its products and services to meet market demand, BPLI'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 BPLI's operating results. Further, any new products or software BPLI 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.

(e) Weaker than expected market acceptance of new products and services or new versions of BPLI's current products and services

BPLI's business may be adversely affected if its new products and services or new features do not achieve acceptance among customers. BPLI has developed and is continuing to develop products and services incorporating new technology and will pursue those products and services that the Company expects to have the best chance for success based on BPLI'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 BPLI is unable to successfully define, develop and introduce competitive new products and services, and enhance existing products and services, BPLI's business, financial condition and results of operations could be materially adversely affected.

(f) BPLI is dependent on the expansion of its current, and development of new, distribution channels

BPLI sells its products and services directly to its customers and to parties with whom BPLI has strategic relationships. BPLI 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 BPLI's inability to penetrate its respective market segment, could have a material adverse effect on BPLI's business, financial condition and results of operations. There can be no assurances that BPLI will continue to attract customers and strategic partners and any inability to do so could materially adversely affect BPLI's business, financial condition and results of operations.

(g) BPLI'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

BPLI's continued growth and success is largely dependent on the experience, abilities and dedication of its management and technical personnel. As BPLI 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 BPLI'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 BPLI's ability to promptly satisfy its customer needs and may therefore impede BPLI's growth objectives. There can be no assurances that BPLI can retain its current key officers and employees or attract and retain additional key employees to support BPLI's growth. The loss of certain key employees could have a significant impact on BPLI's business, results of operations and financial condition.

(h) If BPLI's intellectual property is not adequately protected, BPLI may lose its competitive advantage.

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

To protect its intellectual property, BPLI 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.

(i) If BPLI 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 BPLI's business or by third parties using BPLI's products and services could harm its business, financial condition and operating results. BPLI may have access to confidential information, including passwords, financial information or other personal information from BPLI's customers. If, in handling this information, BPLI fails to comply with its customer's privacy policies or applicable privacy and security laws, BPLI could incur civil liability to government agencies, customers and individuals whose privacy was compromised. In addition, third parties may attempt to breach BPLI's security or inappropriately use BPLI s products and services through computer viruses, electronic break-ins and other disruptions. If successful, confidential information may be improperly obtained and BPLI could be subject to lawsuits and other liability. Any internal or external security breaches could harm BPLI's reputation and any perception of security risks, whether or not valid, could inhibit market acceptance of BPLI's products and services.

(j) BPLI may be unable to identify and complete acquisitions, and acquisitions could divert management's attention and financial resources, may negatively affect BPLI’s operating results, and could cause significant dilution to shareholders

BPLI may seek to further expand operations by acquiring additional complementary businesses, products or technologies. There can be no assurances that BPLI will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses, products, services or technologies into BPLI’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 BPLI’s business, results of operations and financial condition. Acquisitions could also result in the potentially dilutive issuance of equity securities. Any failure to manage BPLI’s acquisition strategy successfully could have a material adverse effect on BPLI’s business, results of operations and financial condition.

(k) Products and software issues may result in increases in BPLI’s costs and/or lost revenue opportunities

BPLI’s products and technologies are complex. Although BPLI 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. BPLI 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 BPLI’s products and services could materially adversely affect its reputation, result in significant costs to BPLI, delay planned release dates and impair BPLI’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 BPLI’s operating margins. While BPLI 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 BPLI’s products may still be found in the future.

(l) System failure could harm BPLI’s reputation and operating results

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

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

(n) Increased competition could have an adverse effect on BPLI’s business

The markets for BPLI’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 BPLI may enter the market and competition may intensify. In addition, current competitors may develop products and services that are comparable or superior to BPLI’s products and services or achieve greater market acceptance due to pricing, sales channels or other factors.

As the demand for BPLI’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 BPLI offers or may offer in the future, or to offer new products or services that BPLI does not offer. BPLI can provide no assurances that its products and services will compete successfully with the products and services of BPLI’s competitors.

BPLI’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 BPLI's products and services. Activities of BPLI's competitors could have a negative impact on BPLI by creating increased pricing pressure, reduce profit margins, increasing sales and marketing expense or result in the loss of BPLI's market share. If BPLI is unable to effectively respond to these competitive factors, its business, results from operations and financial condition could be materially adversely affected.

(o) Third parties may allege that BPLI infringes on their intellectual property

The industries in which BPLI competes have other participants, who own, or claim to own, intellectual property. Although BPLI has conducted prudent reviews of BPLI's products and software to ensure that it does not knowingly use unlicensed intellectual property, third parties may allege that BPLI 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 unfavourable to it, BPLI may not be able to negotiate acceptable, or indeed any, licensing terms. Such an event could materially adversely affect BPLI's business, results of operations and financial condition.

In addition, some of BPLI's competitors have, or are affiliated with companies having, substantially greater resources than BPLI 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 BPLI. 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 BPLI to significant liabilities;
- require BPLI to enter into costly royalty or licensing agreements; and
- require BPLI to modify or stop using the infringing technology.

(p) A continued general economic downturn may negatively affect the Company

A continued downturn in the global economic environment has the potential to negatively impact BPLI 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 BPLI'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 BPLI'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 BPLI's corporate and government customers. These conditions may reduce the willingness or ability of customers and prospective customers to commit funds to purchase BPLI's products and services, or their ability to pay for BPLI's products and services after purchase or initial subscription. These conditions could result in bankruptcy or insolvency for BPLI's corporate customers which would impact BPLI 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 BPLI's contracts. BPLI 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.

(q) Economic and geopolitical uncertainty may negatively affect BPLI

The market for BPLI's products and services depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond BPLI'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 BPLI's products and services, any of which could have a material adverse effect on BPLI's business, results of operations and financial position.

(r) BPLI derives a substantial part of its revenue from a few key customers

A key element of BPLI'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, BPLI 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 BPLI 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.

(s) BPLI's revenues are substantially concentrated in two market categories

The Training & Simulation Business generated 77% of BPLI's revenues, and the Learning Networks Business generated 23% of BPLI's revenues, in the six months ended June 30, 2020. 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 BPLI's business, results of operations and financial condition.

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

(t) BPLI's business faces risks associated with public budgets, spending policies and government assistance programs

The Company 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.

BPLI'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 BPLI. BPLI's claims under these assistance programs may also be rejected, which could negatively impact BPLI's income and financial condition.

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

(v) BPLI's ability to obtain funding from new equity or additional debt may be limited

BPLI 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. BPLI's inability to access sufficient funding for its operations or any intended acquisitions could have an adverse effect on its financial condition.

## OUTLOOK

In March 2020, the World Health Organization declared coronavirus (COVID-19) as a global pandemic. This contagious disease outbreak resulted in governments worldwide enacting emergency measures to combat the spread of the virus, which includes the implementation of travel bans, self-imposed quarantine periods, and social distancing. These measures could impact the Company's operations whether through supply chain or demand. At this time, it is unknown the extent of the impact the COVID-19 pandemic may have on the Company as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate duration of the outbreak, including the duration of travel restrictions, business closures or disruptions and duration of quarantine/isolation measures put in place to fight the virus. All of these uncertainties have the ability to impact timing of revenue recognition and operations.

The Company continues to take steps toward strengthening the balance sheet through improved operations and entering into several significant financing arrangements. 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. As at June 30, 2020, $3.3 million has been drawn against the facility.

On March 26, 2020, the Company secured a $2.0 million funding contribution under the Atlantic Canada Opportunity Agency Regional Economic Growth through Innovation Program. As at June 30, 2020, $1.5 million has been drawn against the facility.

Despite the potential delays as a result of the ongoing COVID-19 Pandemic, the Company remains fully committed to the product strategy and goal of transforming the Company into more of a product and proprietary technology-based business while still growing its services business. This transformation is expected to take some time to be fully realized and management does not anticipate major unit volumes or major service volumes to be realized within the early stages of the launch. The Company continued to target key initial accounts to validate the products and platform services in 2020 that will add revenues but more importantly provide the industry validation needed to scale the opportunities.

The Bluedrop Training & Simulation business unit had a strong start to the 2020 fiscal year as a result of significant contract awards in late fiscal 2019. The business unit continued to make significant advances in developing its core product technologies. During Fiscal 2019, the Company advanced its Rear Crew Mission Trainer ("RCMT") and Hoist Mission Training Systems ("HMTS") simulation technologies to fit additional Original Equipment Manufacturer ("OEM") platforms for rotary wing aircraft. On May 29, 2019, the Company announced plans to develop a V-22 Osprey Special Mission Aviator Ramp Trainer. The program is funded under the Innovation, Science and Economic Development Canada (ISED), Investment Framework Transaction program by Boeing. The program includes funding to the business unit, engineering support from Boeing and a three-year commitment to support the development and ongoing sales of the new product within the Boeing global supply chain. The Company continues to develop and enhance its simulation products such as the RCMT, HMTS and stand-alone gunnery trainers. In addition, the Company has adapted its technology for land-based vehicles. The objective is to create a new class of rear crew complete mission trainers and rear crew task trainers adaptable across multiple platforms and markets. By combining emerging technologies with strong OEM partnerships and market access, the business unit is focused on achieving its business goals.

The Learning Networks business unit continues to build more capabilities and features into its *Bluedrop360™* platform as it invests heavily in research and development in the period. The development of this proprietary technology to ensure the end user value proposition is well demonstrated is a key strategic focus for the business unit. The new platform has been successfully implemented for multiple occupational health and safety compliance applications in Canada where it now provides regulators, employers and employees a secure web-based tracking system for multiple users and multiple certification validations. The platform also has been successfully deployed in workforce skills enhancement programs in Canada and the US with an objective of reducing delivery costs and improving outcomes for job seekers. Management of the Company is continuing to explore opportunities in the workplace compliance and workforce skills enhancement markets. Throughout fiscal 2020, the business unit will continue to focus efforts on enhancing the functionality and features of the *Bluedrop360™* platform while continuing to pursue additional opportunities in the market.