

Management's Discussion and Analysis of Results of Operations and Financial Condition For the Six Months Ended March 31, 2015

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") of Bluedrop Performance Learning Inc. ("Bluedrop" or "the Company") provides the reader with a view and analysis, from the perspective of management, of Bluedrop's financial results for the six months ended March 31, 2015 and should be read in conjunction with the Company's Condensed Consolidated Interim Financial Statements and notes thereto for the six months ended March 31, 2015. 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 May 29, 2015.

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

Caution Regarding Forward-Looking Information

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

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. The Company is subject to the risks outlined in the "Risk Factors" section of this MD&A. No assurance can be provided that the results or performance expressed in or implied by forward-looking statements within this MD&A will occur, or if they do, that any benefits may be derived from them. The forward-looking statements contained in this MD&A represent Bluedrop's expectations as of May 29, 2015 and are subject to change after such date.

COMPANY OVERVIEW

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

Bluedrop Training and Simulation is one of Canada's leading providers of comprehensive training solutions for the defence sector. With over 40 years' experience and hundreds of training devices delivered it prides itself on its resume and skilled work force of approximately 130 people. Bluedrop Training and Simulation provides a full suite of products and services ranging from training needs analysis and design, courseware and technical documentation, training information management systems, training program delivery, virtual reality based trainers and simulators and in service support for larger simulators and programs. It services all branches of the defence sector including naval, air force and army operations as well as other security agencies.

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

BUSINESS COMBINATION

On December 31, 2013 the Company, under a Plan of Arrangement, acquired all the issued and outstanding common shares of Atlantis Systems Corp. (Atlantis), a publically traded company listed on the TSX Venture - NEX Exchange. Atlantis is a custom courseware developer and provider of training and simulation products to the defence and aerospace industry. The business combination allows the Company to facilitate continued growth in training and simulation operations in domestic markets and provides a foundation for future growth into international markets.

The cash consideration transferred in the Plan of Arrangement was \$1,000,000. The long term debt agreements of Atlantis were renegotiated concurrent with the acquisition. The Company assumed \$2,500,000 of long term debt, \$1,000,000 of which was repaid immediately following the acquisition. On December 30, 2014, the Company repaid the remaining secured convertible term note under an early discounted settlement agreement.

The value of goodwill was calculated as the excess of the fair value of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed. This goodwill is not deductible for income tax purposes.

Value of assets acquired and liabilities assumed

Cash	\$ 89,551
Accounts receivable	2,226,709
Work in progress	477,371
Prepaid expenses	18,164
Deferred tax assets	2,368,415
Intangible assets	2,320,000
Goodwill	438,124
Property and equipment	139,019
Accounts payable and accruals	(1,982,147)
Deferred revenue	(1,862,270)
Long term debt	(2,434,836)
Deferred tax liabilities	(693,100)
Long term payables	(105,000)
	\$ 1,000,000

DISCUSSION OF OPERATIONS

Bluedrop Training and Simulation

During the first six months of fiscal 2015 the Bluedrop Training and Simulation business unit continued to benefit from the Atlantis acquisition integration.

During the quarter, the business unit experienced a significant increase in revenues over the previous quarter. This was primarily due to the renewal of a staffing support contract for the Maritime Helicopter Training Centre (MHTC) through a major defence and aerospace equipment manufacturer. The business unit also recognized an increase in revenue on a significant percentage complete project as a result of revised project estimates.

In addition to the renewal of the MHTC staffing support contract, the business unit was awarded a follow-on contract to provide a second virtual reality based helicopter simulator to the Colombian National Police Force. As at March 31, 2015, the business unit has an estimated revenue backlog¹ of \$22.9 million. During the quarter the business unit entered into several multi-year renewal and extension bids. If attained, the business units' backlog is expected to significantly increase.

During the quarter, the business unit continued to seek opportunities for an increased focus on product based offerings with a goal of working with large scale aerospace equipment manufacturers to develop low cost simulation offerings. To pursue this objective, the business unit organized an engineering team responsible for development of next generation simulation and training devices.

Bluedrop Learning Networks

During the first half of fiscal 2015, the Bluedrop Learning Networks business unit refocused its business model to meet its strategic growth objectives. The previous business model was relatively project based with an emphasis on selling courseware and perpetual licensing arrangements under medium term contracts. Given these projects typically had a finite life, strategic growth was limited. In 2015, the business pivoted to focus more on a Software-as-a-Service (SaaS) based model with an aim at generating a larger recurring revenue stream and providing greater growth. Under this model, the company has discontinued the sale of perpetual licence arrangements in favor of term based recurring licence models.

During the quarter ended March 31, 2015 the business unit continued to fulfil existing customer contracts while pursuing new market verticals in line with the new business model noted above.

The business unit continued to develop cloud based SaaS training management systems. It has recently launched the Bluedrop360 platform to meet the needs of large enterprise clients. Bluedrop360 automates and optimizes labour market training management for clients which are focused on helping the unemployed and underemployed get jobs, ensuring workers can stay safe at work, and helping apprentices and skilled labour to gain important credentials.

Corporate

During the quarter ended March 31, 2015, management continued improvements of the balance sheet working capital and cash availability positions.

The company replaced term debt due in June 2015 with two new facilities including a 14% convertible term note in the amount of \$625,000 and a 16% term note in the amount of \$600,000 with an entity under the control of the Company's beneficial shareholder. Further, the company extended its available capacity under the unsecured royalty arrangement. These new financing arrangements improved the Company's net working capital position and provided cash availability to undertake strategic growth initiatives in the business units.

The company continued to monitor fluctuations in foreign currency exchange rates which could significantly impact cash flows from contracts with US customers and assessed the potential use of hedging arrangements. Subsequent to the quarter the Company entered into forward contract arrangements to hedge risk from exchange rate fluctuations.

¹ See section titled "Non-GAAP Financial Measures"

FINANCIAL RESULTS OF OPERATIONS

The following tables and discussion compare Bluedrop's operating results for the three months and six months ended March 31, 2015 to the same period ended March 31, 2014.

(Canadian dollars in thousands)	Three months ended March 31		Change (2015 vs. 2014)	
	2015	2014	\$	%
Revenue				
Services revenue	4,231	3,949	282	7%
Product sales	1,111	529	582	110%
	5,342	4,478	864	19%
Direct costs	3,188	2,790	398	14%
Gross profit	2,154	1,688	466	28%
Gross profit percentage	40%	38%		
Expenses				
Sales and marketing	469	764	(295)	-39%
General and administration	1,171	1,265	(94)	-7%
Acquisition and restructuring costs	-	211	(211)	-100%
Government assistance	(253)	(422)	169	-40%
Share-based compensation	69	54	15	28%
Finance costs	429	378	51	13%
Depreciation and amortization	220	217	3	1%
Other gains and losses	43	-	43	100%
	2,148	2,467	(319)	-13%
Earnings (loss) before income taxes	6	(779)	785	-101%
Income taxes	(5)	(216)	211	-98%
Net Earnings (loss)	11	(563)	574	-102%

(Canadian dollars in thousands)	Six months ended March 31		Change (2015 vs. 2014)	
	2015	2014	\$	%
Revenue				
Services revenue	7,604	5,528	2,076	38%
Product sales	2,088	987	1,101	112%
	9,692	6,515	3,177	49%
Direct costs	5,903	4,075	1,828	45%
Gross profit	3,789	2,440	1,349	55%
Gross profit percentage	39%	37%		
Expenses				
Sales and marketing	895	1,508	(613)	-41%
General and administration	2,107	2,210	(103)	-5%
Acquisition and restructuring costs	-	1,877	(1,877)	-100%
Government assistance	(450)	(651)	201	-31%
Share-based compensation	140	127	13	10%
Finance costs	839	496	343	69%
Depreciation and amortization	441	393	48	12%
Other gains and losses	(427)	6	(433)	-7217%
	3,545	5,966	(2,421)	-41%
Loss before income taxes	244	(3,526)	3,770	-107%
Income taxes	131	(884)	1,015	-115%
Net loss	113	(2,642)	2,755	-104%

Revenue

For the three months ended March 31, 2015 revenues were \$5,342,606, an increase of \$864,568 (19%) as compared to the same period in 2014. For the six months ended March 31, 2015 revenues were \$9,691,952, an increase of \$3,176,716 (49%) as compared to the same period in 2014.

The following tables illustrate the change in revenues from each identified operating segment for the six months ended March 31, 2015.

Revenue	Three months ended March 31				Change (2015 vs. 2014)	
	2015	% of total	2014	% of total	\$	%
	<i>Bluedrop Training and Simulation</i>	4,507	84%	3,589	80%	918
<i>Bluedrop Learning Networks</i>	835	16%	889	20%	(54)	-6%
	<u>5,342</u>	100%	<u>4,478</u>	100%	<u>864</u>	19%

Revenue	Six months ended March 31				Change (2015 vs. 2014)	
	2015	% of total	2014	% of total	\$	%
	<i>Bluedrop Training and Simulation</i>	8,017	83%	4,514	69%	3,503
<i>Bluedrop Learning Networks</i>	1,675	17%	2,001	31%	(326)	-16%
	<u>9,692</u>	100%	<u>6,515</u>	100%	<u>3,177</u>	49%

On December 31, 2013 the Company acquired Atlantis. The results of the Atlantis operations have been included from the date of acquisition in the Bluedrop Training and Simulation financial results leading to a significant increase over 2014 results. The decrease in revenues of the Bluedrop Learning Networks operation is a direct result of decreased courseware development sales over the previous period.

Direct costs

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

For the three months ended March 31, 2015 total direct costs were \$3,187,770, an increase of \$398,097 (14%) over the same quarter in the prior fiscal year. For the six months ended March 31, 2015 direct costs were \$5,903,118, an increase of \$1,827,651 (45%) as compared to the same period in 2014.

For an explanation of the significant increase in direct costs please refer to the commentary on gross profit below.

Gross profit

For the three months ended March 31, 2015 gross profit was \$2,154,836, an increase of \$466,471 (28%) over the same quarter in the prior period. The reported gross profit percentage for the three months ended March 31, 2015 was 40% as compared to 38% for the same period in the prior year.

For the six months ended March 31, 2015 gross profit was \$3,788,834, an increase of \$1,349,065 (55%) over the same period in the prior year. The reported gross profit percentage for the six months ended March 31, 2015 was 39% as compared to 37% for the same period in the prior year.

The Bluedrop Training and Simulation business unit gross profit for the six months ended March 31, 2015 was \$3,017,090 versus \$1,150,480 for the same period in 2014. The gross profit percentage was 38% for the current period versus 25% for the prior period. The significantly lower gross profit in 2014 was a result of delays in executing several professional service contracts which were anticipated to begin in the first quarter of 2014 in addition to an adjustment to percent complete estimates associated with a significant professional services contract. On December 31, 2013 Bluedrop acquired Atlantis as noted above. The 2015 Bluedrop Training and Simulation gross profit percentage reflects late 2014 cost reductions within the billable base of employees to align the new combined operations with the current backlog and contracts in place or in final stages of completion.

The Bluedrop Learning Networks business unit gross profit for the six months ended March 31, 2015 was \$771,744 as compared to \$1,289,289 for the same period in 2014, resulting in a gross margin of 46% versus 64% for the same period in 2014. The decrease in gross profit percentage was a direct result of the decreased custom courseware revenues noted above.

Sales and marketing

For the three months ended March 31, 2015 sales and marketing expenses were \$468,555, a decrease of \$295,713 (39%) over the same quarter in the prior period. For the six months ended March 31, 2015 sales and marketing expenses were \$894,609, a decrease of \$613,330 (41%) as compared to the same period in 2014.

The decrease in sales and marketing is a result of restructuring and cost reduction activities in the 2014 fiscal year.

General and administration

For the three months ended March 31, 2015 general and administration expenses were \$1,171,015, a decrease of \$94,474 (7%) over the same quarter in the prior period. For the six months ended March 31, 2015 general and administration expenses were \$2,107,038, a decrease of \$103,420 (5%) as compared to the same period in 2014.

As noted above, Bluedrop acquired the Atlantis operations in December 2013. Throughout the 2014 fiscal year, Bluedrop carried out integration activities and implemented cost reduction strategies. This resulted in significant cost savings as a result of combined operation synergies. Despite the additional operations acquired, Bluedrop was able to reduce general and administrative costs in the first quarter of fiscal 2015 to the pre-acquisition level. As the company progressed through the second quarter, it increased expenditure in certain administration functions to facilitate strategic growth.

Government assistance

For the three months ended March 31, 2015 government assistance included in income was of \$253,164, a decrease of \$168,808 (40%) over the same quarter in the prior period. For the six months ended March 31, 2015 government assistance included in income was \$450,079, a decrease of \$200,472 (31%) as compared to the same period in 2014.

During the six months ended March 31, 2015, funding related to the Atlantic Canada Opportunities Agency - Atlantic Innovation Fund decreased by \$232,596 compared to the same period in 2014. The decrease was offset by a \$54,622 increase in recognized funding under the Nova Scotia Digital Media Tax Credit program over the same period in 2014. The Company is assessing the eligibility of current activities relating to the Scientific Research and Experimental Development tax credit program and has not recorded any assistance for the six months ended March 31, 2015.

Share-based compensation

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

The Company recorded \$140,038 as share-based compensation expense for the six months ended March 31, 2015 and \$127,134 for the same period in 2014. The Company granted 1,367,343 of additional options during the six months ended March 31, 2015.

The Company has an employee share purchase plan which permits employees to subscribe to common shares of the Company through payroll deductions. The Company may provide financial assistance with respect to the plan by way of loan, guarantee or otherwise. The Company has reserved a maximum of 2,969,597 common shares under the employee share purchase plan. As at March 31, 2015 no shares were outstanding under the plan.

Finance costs

For the three months ended March 31, 2015 finance costs were \$428,951, an increase of \$51,157 (14%) over the same quarter in the prior period. For the six months ended March 31, 2015 finance costs were \$839,492, an increase of \$343,856 (69%) as compared to the same period in 2014.

The increase in the six months ended March 31, 2015 is primarily a result of a \$330,144 increase in interest and accretion on long term debt as a result of additional borrowings in the period used to fund the acquisition of Atlantis and required working capital. During the year ended September 30, 2014, advances of long term debt were \$5,199,537. During the first six months of fiscal 2015 the Company received long term debt advances of \$1,225,000.

Depreciation and amortization

For the three months ended March 31, 2015 depreciation and amortization expense was \$219,804, an increase of \$3,074 (1%) over the same quarter in the prior year. For the six months ended March 31, 2015 depreciation and amortization expense was \$441,255, an increase of \$47,844 (12%) as compared to the same period in 2014.

The increase in depreciation and amortization expense is mainly related to increased investments in deferred development costs throughout fiscal 2014 as well as assets acquired in the acquisition of Atlantis.

The Company invested \$522,119 in capital assets and intangible assets during the six months ended March 31, 2015. The additions were offset by government assistance totaling \$242,845 towards the cost of these assets.

Other gains and losses

During the six months ended March 31, 2015, the Company recorded other gains of \$428,177.

On December 30, 2014 the Company entered into an early discounted settlement agreement to repay the secured convertible term note acquired in the acquisition of Atlantis. Under the agreement the Company paid \$1,125,000 on settlement of the debt. As at the settlement date the principal and accrued interest payable was \$1,595,422, resulting in a gain on settlement of \$470,422. During the second quarter of fiscal 2015, the Company disposed of certain property and equipment resulting in a loss on disposal of \$43,745.

Income taxes

For the six months ended March 31, 2015 income tax expense was \$131,420 as compared to a recovery of \$874,878 in the same quarter in the prior year. The difference in the income tax expense (recovery) is a result of tax assets recorded in the prior period associated with losses in that quarter.

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	2015	2015	2014	2014	2014	2014	2013	2013
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30
Revenue								
<i>Bluedrop Training and Simulation</i>	\$ 4,507	\$ 3,509	\$ 3,672	\$ 3,653	\$ 3,589	\$ 926	\$ 2,058	\$ 2,095
<i>Bluedrop Learning Networks</i>	\$ 835	\$ 840	\$ 689	\$ 864	\$ 889	\$ 1,111	\$ 898	\$ 1,155
	5,342	4,349	4,361	4,517	4,478	2,037	2,956	3,250
Direct costs	3,188	2,715	2,532	2,831	2,790	1,286	1,514	1,516
Gross profit	2,154	1,634	1,829	1,686	1,688	751	1,442	1,734
Gross profit percentage	40%	38%	42%	37%	38%	37%	49%	53%
Expenses								
Sales and marketing	469	426	515	491	764	744	730	741
General and administration	1,171	936	1,244	1,247	1,265	945	882	1,069
Acquisition and restructuring costs	-	-	223	12	211	1,666	-	-
Government assistance	(253)	(197)	(260)	(336)	(422)	(229)	183	(307)
Share-based compensation	69	70	14	80	54	73	75	6
Finance costs	429	411	306	384	378	118	118	89
Depreciation and amortization	220	221	349	227	217	177	209	206
Other gains and losses	43	(472)	113	(212)	-	6	539	-
	2,148	1,395	2,504	1,893	2,467	3,500	2,736	1,804
Earnings (loss) before income taxes	6	239	(675)	(207)	(779)	(2,749)	(1,294)	(70)
Income taxes (recovery)	(5)	136	421	(23)	(216)	(668)	(418)	(16)
Net earnings (loss)	\$ 11	\$ 103	\$ (1,096)	\$ (184)	\$ (563)	\$ (2,081)	\$ (876)	\$ (54)

Fiscal 2015

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

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

Fiscal 2014

During the first quarter of fiscal 2014, the Company acquired all the issued and outstanding common shares of Atlantis Systems Corp. resulting in significant acquisition related costs in the quarter. The Bluedrop Training and Simulation business experienced decreased revenues and gross profit in the first quarter as a result of delays in executing several professional service contracts which were anticipated to begin in the quarter. The delays were remediated in the second quarter. In addition at December 31, 2013 the Company acquired Atlantis. The results of the Atlantis operations are included in the last three quarters of fiscal 2014.

During the third quarter of 2014, the Company disposed of courseware assets in exchange for proceeds of \$275,000USD. The disposed assets and proceeds, net of costs to sell, have been included in other gains and losses.

Fiscal 2013

During the fourth quarter of 2013 management recorded an impairment loss as a result of a strategic review of assets in both the Bluedrop Learning Networks and Bluedrop Training and Simulation businesses. This impairment loss was recognized in Other gains and losses.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended March 31, 2015 the Company generated cash and cash equivalents of \$1,265,332 (2014 – used \$862,680).

Operating activities

For the six months ended March 31, 2015 the Company's generated cash from operating activities of \$2,374,818 compared to cash used of \$2,363,347 for the same period in the prior year.

Non-cash working capital related to operating activities decreased by \$1,137,850 during 2015. Accounts receivable related to operating activities decreased by \$1,181,106 as a result of collection of receivables that occurred near the end of fiscal 2014.

Investing activities

For the six months ended March 31, 2015 the Company consumed cash of \$317,095 for investing activities compared to cash consumed of \$1,282,579 for the same period in the prior year.

Investment in intangible assets for the period was \$252,971 primarily related to the development of the Bluedrop360 training management and delivery platform. In addition, the Company invested \$21,239 in property and equipment.

Changes in non-cash working capital for the period included a \$70,240 increase in government assistance receivables related to investing activities.

Financing activities

For the six months ended March 31, 2015 the Company used \$692,391 in cash in financing activities as compared to cash generated of \$2,783,246 from financing activities for the same period in the prior year.

Financing activities for the six months ended March 31, 2015 included \$1,508,118 of repayments of long term debt, including the repayment of the remaining 8% secured convertible term note under an early discounted settlement agreement. This was offset by additional long term debt advances of \$1,225,000.

Cash and credit availability

The Company has a short term bank operating line of credit to a maximum of the lesser of \$3,500,000 and defined marginable accounts receivable minus specified liabilities. The revolving operating facility is repayable on demand and bears interest at Royal Bank prime plus 1.95%. The Company has provided a General Security Agreement as security for this indebtedness. At March 31, 2015 the Company has no balance drawn against its short term borrowing facilities.

In addition to the revolving operating facility, Bluedrop has \$650,000 of undrawn funding available under a unsecured royalty arrangement.

CONTRACTUAL OBLIGATIONS

The following table contains a summary of the Company's contractual obligations and commitments to make future payments under contracts including debt, finance leases and operating leases at March 31, 2015:

Scheduled payments due by period (Canadian dollars in thousands)	Long term debt	Capital leases	Operating leases	Total
2015 (year ended September 30)	599	21	414	1,034
2016	2,158	32	758	2,948
2017	4,646	12	802	5,460
2018	583	-	802	1,385
2019	479	-	694	1,173
Thereafter	629	-	2,550	3,179
	\$ 9,094	\$ 65	\$ 6,020	\$ 15,179

PROVISIONS AND CONTINGENT LIABILITIES

To March 31, 2015 the Company had recognized ACOA-AIF contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,974,121 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and services resulting from the research funded. A continuity of the amount of the provision recognized is as follows:

	March 31 September 30	
	2015	2014
Opening balance	\$ 1,188,864	1,186,545
Accretion	101,054	201,713
Royalties paid or payable	(47,893)	(27,771)
Additions and revaluations	11,037	(171,623)
	\$ 1,253,062	1,188,864

SHARE INFORMATION

At March 31, 2015 the Company had issued 98,986,609 common shares and 14,450,721 share options that can be exercised when vested to obtain an equivalent number of common shares. During the six months ended March 31, 2015, the Company granted 1,367,343 of additional options.

The Company has an employee share purchase plan which permits employees to subscribe to common shares of the Company through payroll deductions. The Company may provide financial assistance with respect to the plan by way of loan, guarantee or otherwise. The Company has reserved a maximum of 2,969,597 common shares under the employee share purchase plan. As at March 31, 2015 no shares were outstanding under the plan.

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 three months ended March 31, 2015:

- The Company recorded rent expense of \$65,520 for the three months ended March 31, 2015 (2014 - \$65,520) for rental of premises from LB2P a company controlled by the Company's President & Chief Executive Officer. Effective October 1, 2011 the Company entered into a 6 year lease, with a 4 year renewal option, with LB2P for 100% of the premises available for lease at 18 Prescott Street, St. John's, NL. The lease includes an initial net lease rate for two years with escalation provisions periodically thereafter.
- The Company recognized an expense of \$240,600 for the three months ended March 31, 2015 (2014 - \$243,417) for fees, salaries and benefits to its key management personnel for services rendered. Key management is considered to be members of the Board of Directors, the President & Chief Executive Officer and the Chief Financial Officer. The Executive Chairman's fees are paid to a corporation under his control.
- The Company recognized an expense of \$42,015 for the three months ended March 31, 2015 (2014 - \$49,643) for share based compensation to its key management personnel (as described above).
- During the three months ended March 31, 2015, The Company received financing of \$600,000 in the form of a 18 month unsecured term loan from an entity controlled by the Company's beneficial controlling shareholder. The term loan bears interest, payable monthly, at 16% per annum and is subordinated to existing senior credit and other term facilities. The terms of the loan provide that early repayment can be made by Bluedrop, without penalty, by providing 90 days notice.

ACCOUNTING ESTIMATES

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

Significant management judgements

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

(a) Revenue recognition

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

(b) Income taxes

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

The Company has recognized deferred tax assets in the Company's financial statements for the period ended March 31, 2015. 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.

Estimation uncertainty

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

(a) Fair value of provisions

Management uses valuation techniques in determining the fair values of its provisions related to conditionally repayable grants. Significant estimates include the amount and timing of future cash flows and discount rates used in measurement of the fair value.

(b) Fair value of financial liabilities

The Company has received long term debt financing at below-market interest rates and through issue of convertible notes. The fair value of these financial liabilities are 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 services contracts is recognized on a percentage of completion basis, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Changes to the estimate of percentage complete or estimated costs to complete could have a material impact on the carrying values of work in progress or deferred revenue and a material impact on future revenue.

(e) Share-based compensation

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

NON-GAAP FINANCIAL MEASURES

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

(a) Backlog

Backlog is a non-GAAP measure that represents the expected value of orders we have received but have not yet executed. The Company considers an item part of our 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 item is only included in backlog when the customer has authorized the renewal.

RISKS

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

Customer risk

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

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

Credit risk

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

The Company's maximum exposure to credit risk, with respect to accounts receivable and unbilled work in progress corresponds to the carrying value. At March 31, 2015 approximately 61% of trade receivables were due from four customers (September 30, 2014 – 34% from two customers). In accordance with contract terms, the Company bills certain customers in advance of the completion of work and records such billings as deferred revenue.

An allowance for doubtful accounts is established at each balance sheet date based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The allowance for doubtful trade accounts receivable at March 31, 2015 was Nil (September 30, 2014 - \$62,857). At March 31, 2015 the Company's trade accounts receivable included amounts over 90 days old totaling \$777,169 (September 30, 2014 – \$145,272) which were not considered to be impaired and therefore not included in the allowance for doubtful accounts.

Recruitment and retention risks

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

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

OUTLOOK

During 2014 and 2015 the Company continued to execute on its business plan of driving growth. To this end and on December 31, 2013 the Company acquired Atlantis Systems Corp., an entity providing training services and simulation products to the defence and aerospace industry. During the fiscal year 2014 the Company focused on the integration of Atlantis Systems Corp. into the Bluedrop Training and Simulation business unit operations. The acquisition has brought the Company a broadened customer list in the defence and aerospace business and has provided several programs already under contract and expects to expand many of these contracts. It has also strengthened the Company's market position in this segment and should position it well for many planned major procurement programs already announced by the government of Canada. Accordingly the acquisition will allow the Company to focus on continued growth in the Training and Simulation business unit.

The fiscal year 2014 was one of increased focus and transformation for the Learning Networks business unit. The Company became much more focused in the year on providing a more complete training solution for its customers. Going forward the Company will be focused on adding new larger scale clients with many users who require a complete training solution to engage, track training, deliver online learning and manage the entire training experience. The new SaaS Bluedrop 360 Training and Delivery Platform is the central part of this service and the aim is to increase long term recurring revenues going forward.