Bluedrop Performance Learning Inc.

Financial Statements

Year ended September 30, 2013

Contents

Grant Thornton

Independent auditor's report

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To the Shareholders of

Bluedrop Performance Learning Inc.

We have audited the accompanying financial statements of Bluedrop Performance Learning Inc., which comprise the statement of financial position as at September 30, 2013, September 30, 2012, and October 1, 2011 and the statement of comprehensive income (loss), the statement of changes in equity, and the statement of cash flows for the years ended September 30, 2013 and September 30, 2012, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bluedrop Performance Learning Inc. as at September 30, 2013, September 30, 2012, and October 1, 2011 and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

Grant Thornton LLP

St. John's, Canada

January 28, 2014

Chartered accountants

Bluedrop Performance Learning Inc.

Statements of Financial Position		September 30 2013	September 30 2012	October 1 2011
In Canadian dollars			(As Restated) (Note 5)	(As Restated) (Note 5)
ASSETS				
Current assets				
Cash and cash equivalents	$	229,813	15,135	-
Accounts receivable (Note 7)		3,127,292	4,168,197	2,650,564
Work in progress		493,572	490,201	298,600
Income taxes recoverable		-	16,131	97,000
Prepaid expenses		449,034	401,298	113,659
Due from related parties (Note 8)		139,791	50,000	-
		4,439,502	5,140,962	3,159,823
Due from related parties (Note 8)		50,227	169,816	50,000
Deferred tax assets (Note 9)		2,139,961	1,557,264	71,030
Goodwill and other intangible assets (Note 10)		3,045,022	3,641,517	515,518
Property and equipment (Note 11)		1,106,634	1,553,096	508,327
	$	10,781,346	12,062,655	4,304,698
LIABILITIES AND EQUITY				
Current liabilities				
Bank indebtedness (Note 12)	$	-	419,051	411,508
Accounts payable and accruals		1,754,576	1,685,330	862,830
Deferred revenue		1,616,965	2,319,118	2,252,627
Due to related parties (Note 8)		61,379	-	1,096
Current portion of obligations under finance leases (Note 13)		76,790	96,995	37,258
Current portion of long term debt (Note 14)		470,340	192,534	24,002
		3,980,050	4,713,028	3,589,321
Obligations under finance leases (Note 13)		35,568	101,482	40,822
Long term debt (Note 14)		2,065,173	1,903,803	51,037
Class D common shares		-	-	375,000
Provisions (Note 15)		1,186,545	469,903	424,004
		7,267,336	7,188,216	4,480,184
Equity				
Share capital (Note 16)		5,053,021	5,053,021	80,309
Share option reserve (Note 16)		899,856	536,675	439,635
Deficit		(2,438,867)	(715,257)	(695,430)
		3,514,010	4,874,439	(175,486)
	$	10,781,346	12,062,655	4,304,698

Approved on Behalf of the Board

Derrick H. Rowe
Director

Emad Rizkalla
Director

Bluedrop Performance Learning Inc.

Statements of Comprehensive Income (Loss)

Year Ended September 30		2013	2012
In Canadian dollars			(As Restated) (Note 5)
Revenue			
Services revenue	$	10,068,417	8,533,695
Product sales		1,459,348	1,584,837
		11,527,765	10,118,532
Direct costs		6,006,171	5,100,806
Gross profit		5,521,594	5,017,726
Expenses			
Sales and marketing		2,767,270	1,746,785
General and administration		3,842,115	3,261,267
Government assistance (Note 17)		(896,327)	(1,367,709)
Share-based compensation (Note 16)		363,181	502,434
Finance costs (Note 18)		381,662	209,504
Depreciation and amortization		825,093	569,420
Impairment loss (Note 10)		539,016	-
		7,822,010	4,921,701
Earnings (loss) before income taxes		(2,300,416)	96,025
Income tax expense (recovery) (Note 9)			
Current		5,891	76,086
Deferred		(582,697)	39,766
		(576,806)	115,852
Net earnings (loss) and comprehensive income (loss)	$	(1,723,610)	(19,827)
Net earnings (loss) per share			
Basic		(0.0174)	(0.0002)
Diluted		(0.0174)	(0.0002)
Weighted average number of shares outstanding			
Basic		98,986,609	93,492,236
Diluted		98,986,609	93,492,236

Bluedrop Performance Learning Inc.

Statements of Changes in Equity

Year Ended September 30

In Canadian dollars

	(Blue Drop) Class A Common Shares	(Blue Drop) Class C Common Shares	Ordinary Common Shares		Share Capital	Share Option Reserve	Retained Earnings (Deficit)	Total
October 1, 2011	5,127,451	187,605	-	$	80,309	439,635	(492,150)	27,794
Prior period restatement (Note 5)	-	-	-		-	-	(203,280)	(203,280)
October 1, 2011 (Restated)	5,127,451	187,605	-	$	80,309	439,635	(695,430)	(175,486)
Share-based compensation	-	-	-		-	502,434	-	502,434
Earnings and comprehensive income	-	-	-		-	-	(19,827)	(19,827)
Exercise of share options	-	377,369	-		609,451	(439,635)	-	169,816
Issuance of common shares on								-
reverse takeover (Note 6)	(5,127,451)	(564,974)	86,866,408		4,363,261	34,241	-	4,397,502
Common shares outstanding								-
prior to reverse takeover	-	-	12,120,201		-	-	-	-
September 30, 2012	-	-	98,986,609	$	5,053,021	536,675	(715,257)	4,874,439
Share-based compensation	-	-	-		-	363,181	-	363,181
Earnings and comprehensive income	-	-	-		-	-	(1,723,610)	(1,723,610)
September 30, 2013	-	-	98,986,609	$	5,053,021	899,856	(2,438,867)	3,514,010

Bluedrop Performance Learning Inc.

Statements of Cash Flows

Year Ended September 30		2013	2012
In Canadian dollars			(As Restated) (Note 5)
Increase (decrease) in cash and cash equivalents			
Operating activities			
Net earnings (loss) for the period	$	(1,723,610)	(19,827)
Items not affecting cash:			
Share-based compensation		363,181	502,434
Depreciation and amortization		825,093	569,420
Non-cash government assistance		(183,215)	(260,766)
Additions and revaluation of provision		419,578	1,416
Finance costs		381,662	209,504
Deferred taxes		(582,697)	39,766
Impairment loss		539,016	-
Interest paid		(85,653)	(52,789)
		(46,645)	989,158
Changes in non-cash working capital (Note 19)		174,545	(654,530)
		127,900	334,628
Investing activities			
Change in related party balances		91,177	(1,096)
Net cash flow on business combinations (Note 6)		-	263,277
Purchase of property and equipment, net of government assistance		89,327	(1,203,621)
Purchase of intangible assets, net of government assistance		(228,732)	(627,716)
		(48,228)	(1,569,156)
Changes in non-cash working capital (Note 19)		217,412	(724,577)
		169,184	(2,293,733)
Financing activities			
(Decrease) increase in operating loan		(266,000)	266,000
Repayment of obligations under finance leases		(123,630)	(60,520)
Advances of long term debt		752,712	2,467,626
Repayment of long term debt		(163,281)	(24,002)
Repayment of royalties		(51,082)	(14,878)
Release of escrow - Class D common shares		-	125,000
Repurchase of Class D common shares		-	(500,000)
Interest paid		(78,074)	(26,529)
		70,645	2,232,697
Increase in cash and cash equivalents		367,729	273,592
Cash and cash equivalents, beginning of period		(137,916)	(411,508)
Cash and cash equivalents, end of period	$	229,813	(137,916)
Cash and cash equivalents consists of:			
Cash on hand and in bank	$	229,813	15,135
Bank overdraft		-	(153,051)
	$	229,813	(137,916)

1. Nature of operations

Bluedrop Performance Learning Inc. (formerly Serebra Learning Corporation) (the Company) was continued under the Corporations Act of Newfoundland and Labrador on January 26, 2012.

On January 26, 2012 the Company completed a business combination with Blue Drop Inc. (Blue Drop) which constituted a reverse takeover of the Company by Blue Drop. Because Blue Drop is considered to be the acquirer for purposes of recording the business combination, these financial statements are a continuation of the financial statements of Blue Drop, adjusted to reflect the legal capital of the Company. On January 27, 2012 the Company commenced trading on the TSX Venture Exchange under the symbol BPL.

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

These financial statements were approved and authorized for issuance by the Board of Directors on January 28 2014.

2. Basis of presentation

These financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB).

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

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

3. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks. Bank borrowings are considered to be financing activities.

(b) Intangible assets

Intangible assets are stated at cost less accumulated amortization. Except where they have indefinite lives, intangible assets are amortized over their estimated useful lives or licence contract period at the following rates and methods:

Computer software	50%	declining balance method
Licences	3-5 years	straight-line method
Technology	5 years	straight-line method
Customer relationships	7 years	straight-line method
Courseware and other	3 years	straight-line method

Government contributions toward intangible assets are recorded as a reduction in the cost of the asset.

3. Significant accounting policies (continued)

(c) Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Property and equipment is depreciated over the estimated useful life of the asset at the following rates and methods:

Computer equipment	30%	declining balance method
Furniture, fixtures and equipment - simulation equipment	10 years	straight-line method
Furniture, fixtures and equipment - other	20%	declining balance method
Vehicles	30%	declining balance method
Leasehold improvements	10 years	straight-line method

Leasehold improvements are amortized over the lesser of the useful life of the asset and the remaining lease period.

Government contributions toward property and equipment are recorded as a reduction in the cost of the asset.

(d) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Where the Company is a lessee in a finance lease, the related asset is recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance lease liability. The leased assets are depreciated in accordance with the Company's policy for owned assets of the same type. For operating leases, payments are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(e) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. No provision is recognized where the possible outflow of economic resources as a result of present obligations is improbable or remote.

Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized within finance costs in the statement of comprehensive income (loss).

(f) Revenue recognition

Multiple-element arrangements

The Company often enters into sales transactions involving the supply of multiple products and services including the supply of courseware, professional services, hosted services and software licence arrangements. The consideration received from multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value as determined by an internal pricing analysis, or based on the residual method, as applicable. The Company applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction.

3. Significant accounting policies (continued)

(f) Revenue recognition (continued)

Services revenue

Service revenues are generated from services rendered in custom courseware development and consulting services.

Revenues from custom courseware development contracts are recognized on a percentage of completion basis, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Revenues are recognized as services are rendered when the revenue and costs incurred and to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company. The timing of revenue recognition often differs from contract payment schedules. Amounts billed in accordance with customer contracts but in advance of completion of services are recorded as deferred revenue. The value of unbilled services performed is recorded as work in progress.

Revenues from consulting services are recognized as services are rendered when the revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

Product sales

Product sales include the sale of simulation products, courseware licensing and commercial off-the-shelf courseware. Revenues from the sale of goods are recognized when risks and rewards of ownership have transferred to the buyer, the Company retains neither continuing managerial involvement nor effective control over the goods sold, the amount of revenue and costs incurred in respect to the transaction can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Company.

The Company develops and sells simulators and simulation related products. Revenues from the sale of such products are recognized when the product has been delivered to the customer and the recognition criteria noted above are met. Associated warranty and support revenues are deferred and recognized over the term specified in the arrangement.

The Company offers online training solutions for businesses and individuals through *CoursePark*™, a cloud-based learning management solution and *Campus*™, a traditional learning management system. Revenues from commercial off-the-shelf courseware, *CoursePark*™ and *Campus*™ licencing is recognized over the term of the licence arrangement. Amounts billed but not recognized are recorded as deferred revenue.

(g) Development costs

Costs incurred on development projects, which in management's view have clearly defined market prospects, are technically feasible and for which the Company intends to commit resources, are capitalized as intangible assets. Capitalized development costs represent expenditures incurred by the Company primarily related to the development of the CoursePark™ learning management system and associated courseware.

Costs associated with projects in the condition necessary for them to be capable of operating in the manner intended by management are depreciated over their estimated useful lives. If capitalized expenditures are deemed to be no longer commercially viable or facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the balance of capitalized development costs is expensed. Any research and development costs that do not meet the criteria for capitalization are expensed as incurred.

3. Significant accounting policies (continued)

(h) Government assistance

The Company receives government assistance in the form of non-repayable contributions, conditionally-repayable contributions, forgivable loans and credits under the Scientific Research and Experimental Development (SRED) and Digital Media Tax Credit (DMTC) programs. Contributions toward operating costs and property and equipment are recorded as reduction of those costs and assets. Contributions toward the costs of capitalized development projects are recorded as a reduction in the cost of the asset.

Government grants are recognized when there is reasonable assurance that the grant will be received and all significant conditions will be achieved. Credits under the SRED program are recorded when amounts can be reasonably estimated and receipt is reasonably assured.

A liability to repay a conditionally-repayable government contribution is recognized when it is probable that an outflow of resources will be required to be repay the contribution.

(i) Share-based compensation

The Company has an equity settled share-based compensation plan and records compensation expense for share options using the fair value method. The compensation expense for options granted to employees is determined based on the estimated fair value of the share options at the time of grant using the Black-Scholes option pricing model and is amortized over the vesting period with an offset to share option reserve. When options are exercised, the corresponding share option reserve and the proceeds received by the Company are credited to share capital. The amount recognized as expense is adjusted to reflect the number of options expected to vest.

(j) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the Company's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

3. Significant accounting policies (continued)

(k) Financial instruments

The Company classifies all financial instruments as either held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. All financial instruments are initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value, with any change in fair value recognized in earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost using the effective interest method.

The Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivables	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Operating loan	Other financial liabilities	Amortized cost
Accounts payable and accruals	Other financial liabilities	Amortized cost
Obligations under finance leases	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

Government loans with below-market interest rates are measured at amortized cost using the effective interest method. The difference between the fair values at inception and the loan proceeds received is recorded as government assistance.

Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are added to or deducted from the fair value of the financial asset or financial liability, as appropriate, on initial recognition and amortized using the effective interest method.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counter party will default.

(l) Business combinations

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree’s financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of the fair value of consideration transferred, the recognized amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

3. Significant accounting policies (continued)

(m) Earnings per share

Basic earnings (loss) per share are computed by dividing earnings (loss) by the weighted average shares outstanding during the reporting period. The Company calculates diluted earnings per share under the treasury share method for warrants and share options. Under the treasury share method, the proceeds from the exercise of warrants and options are assumed to be used to repurchase the Company's shares on the open market. The difference between the number of shares assumed purchased and the number of warrants and options exercised is added to the number of basic shares outstanding to determine diluted shares outstanding for purposes of calculating diluted earnings per share.

(n) Impairment of assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Cash-generating units to which goodwill has been allocated (determined by the Company as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

(o) Significant management judgement and estimation uncertainty

In the process of applying the Corporation's accounting policies, management has made certain judgments, estimates, and assumptions which affect the amounts recognized in these 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.

<u>Significant management judgements</u>

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

i) 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. Judgement 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.

3. Significant accounting policies (continued)

(o) Significant management judgement and estimation uncertainty (continued)

ii) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company recorded current and deferred tax expense 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 recorded a deferred tax asset on the reverse takeover described in Note 6. Management considers that it is probable that the tax asset will be realized. The ultimate realization of this asset is dependent upon the Company's ability to generate sufficient taxable income to utilize the tax losses recognized. 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.

iii) Government assistance

The Company receives government assistance pursuant to specific contractual funding agreements and is also eligible to receive cash tax credits under the SRED and 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. Government assistance may be overstated if the costs claimed are determined to be ineligible.

Government assistance is 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.

iv) 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:

i) 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.

ii) 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.

3. Significant accounting policies (continued)

(o) Significant management judgement and estimation uncertainty (continued)

iii) 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.

iv) 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.

v) 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.

4. 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 financial statements.

IFRS 9 *Financial Instruments*
IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. [January 1, 2015]

IFRS 10 *Consolidated Financial Statements*
IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*. [January 1, 2013]

IFRS 11 *Joint Arrangements*
IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. [January 1, 2013]

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 requires specific disclosure of information by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. [January 1, 2013]

IFRS 13 *Fair Value Measurements*
IFRS 13 defines fair value, sets out in a single IFRS framework for measuring value and requires disclosures about fair value measurements. IFRS 13 applies to when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. [January 1, 2013]

In Canadian dollars

4. New and future accounting standards (continued)

IAS 36 *Impairment of Assets*
Amendments to IAS 36 establish new disclosure requirements regarding information around the recoverable amount of impaired assets determined using fair value less cost to dispose. [January 1, 2014]

IAS 19 *Employee Benefits*
Amendments to IAS 19 address the recognition and measurement of post-employment defined benefit expenses and termination benefits and the disclosure of all employee benefits. [January 1, 2013]

IAS 32 *Financial Instruments: Presentation*
Amendments to IAS 32 establish criteria for offsetting of financial assets and liabilities. [January 1, 2014]

IFRS 7 *Financial Instruments: Disclosure*
Amendments to IFRS 7 establish new disclosure requirements for financial assets and liabilities that have been offset in the statement of financial position or are subject to offsetting agreements. [January 1, 2013]

5. Restatement

During the fiscal year ended September 30, 2013 the Company performed a detailed review of its accounting policies for revenue recognition including multiple-element arrangements. As a result of the review, management has determined that the Company's accounting for perpetual licenses under IFRS as presented in previously issued financial statements was not in accordance with generally accepted accounting principles. In previously reported financial statements such revenues were recognized immediately given an indefinite useful life. In the restated financial statements management has estimated a useful life based on factors specific to customer relationship periods within individual licencing arrangements. Revenue is recognized on a straight-line basis over the estimated useful life.

The impact of the above adjustments to revenue and related tax impact is as follows:

	September 30 2012 Previously Reported	Adjustment	September 30 2012 Restated
Statement of financial position			
Deferred revenue	1,679,834	639,284	2,319,118
Deferred tax assets and liabilities	1,384,657	172,607	1,557,264
Retained earnings	(248,580)	(466,677)	(715,257)
Statement of comprehensive income (loss)			
Revenue	10,471,506	(352,974)	10,118,532
Income tax expense	205,429	(89,577)	115,852
Net earnings (loss) and comprehensive income (loss)	243,570	(263,397)	(19,827)
Net earnings (loss) per share - Basic and Diluted	0.0026	(0.0028)	(0.0002)

	October 1 2011 Previously Reported	Adjustment	October 1 2011 Restated
Statement of financial position			
Deferred revenue	1,966,317	286,310	2,252,627
Deferred tax assets and liabilities	(12,000)	83,030	71,030
Retained earnings	(492,150)	(203,280)	(695,430)

In Canadian dollars

6. Business combinations

(a) Reverse takeover

On January 26, 2012 the Company completed a business combination with Blue Drop. The transaction was completed by way of a statutory amalgamation whereby Blue Drop amalgamated with a wholly owned subsidiary of the Company, with the amalgamated company (Amalco) being wholly owned by the Company. In connection with the transaction, the Company issued 86,866,408 common shares to the shareholders of Blue Drop, which on closing represented 87.756% of the total issued and outstanding shares of the Company. The transaction therefore constituted a reverse takeover of the Company by Blue Drop.

Blue Drop is considered to be the acquirer for purposes of recording the business combination and these financial statements are therefore a continuation of the financial statements of Blue Drop, adjusted to reflect the legal capital of the Company. The combined results of operations are included from January 26, 2012.

The business combination allows the Company to migrate its technology and customer base to a cloud-based technology platform already in commercial release but with many features still under development. The goodwill recognized in the transaction reflects the fact that the Company's personnel, technical knowledge, experience and expertise will allow for more rapid development and full commercialization of CoursePark™, the cloud-based learning management solution and greater penetration of additional vertical markets for the Company's full suite of training services and solutions.

Immediately following the closing of the reverse takeover transaction, the Company and Amalco completed a vertical amalgamation under the name Bluedrop Performance Learning Inc.

Value of assets acquired and liabilities assumed		
Cash	$	263,277
Accounts receivable		261,785
Other current assets		91,988
Deferred tax asset		1,526,000
Property and equipment		38,317
Intangible assets		1,488,060
Goodwill		1,415,007
Current liabilities		(686,932)
	$	4,397,502

7. Accounts receivable

		September 30 2013	September 30 2012	October 1 2011
Trade	$	1,666,427	2,551,857	2,260,699
Government assistance		1,446,483	1,526,512	307,551
Other		14,382	89,828	82,314
	$	3,127,292	4,168,197	2,650,564

In Canadian dollars

8. Related party transactions

(a) Due from (to) related parties

		September 30 2013	September 30 2012	October 1 2011
LB2P Holdings Inc.	$	20,202	50,000	50,000
Shareholder loan		(61,379)	-	(1,096)
Employees - share purchase loans		169,816	169,816	-
	$	128,639	219,816	48,904

LB2P Holdings Inc. (LB2P) is controlled by the Company's beneficial controlling shareholder. The balance due at September 30, 2013 was non-interest bearing and has no set terms of repayment.

Shareholder loan includes a payable to the Company's beneficial controlling shareholder. The balance due is non-interest bearing and has no set terms of repayment.

As collateral for the non-interest bearing share purchase loans, the borrowers have granted the Company a security interest in the shares purchased. The loans are repayable within 90 days of termination of employment, are repayable at a rate of 50% of cash proceeds in the event of a sale of shares prior to repayment of the loans and are otherwise repayable in full on or before January 31, 2015.

(b) Related party transactions

		2013	2012
Rent expense	$	241,920	231,840
Finance charges		29,798	-
Fees, salaries and benefits for key management personnel		593,635	533,830
Share based compensation for key management personnel		146,919	178,041
Termination benefits for key management personnel		31,462	-

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.

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 every two years thereafter.

During the year ended September 30, 2013 Bluedrop terminated its position under a joint and several mortgage arrangement with LB2P resulting in finance charges of $29,798 in the period.

Key management personnel include the President and Chief Executive Officer, the Chief Financial Officer (CFO) and the directors of the Company (commencing January 26, 2012). The Executive Chairman's fees are paid to a corporation under his control.

In Canadian dollars

9. Income taxes

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

		2013	2012
Earnings (loss) before income tax	$	(2,300,416)	96,025
Statutory tax rate		28%	27%
Expected tax expense		(644,116)	25,927
Non-deductible share based compensation		101,691	135,657
Other non-deductible expenses		17,377	23,761
Changes in current and future tax rates		(57,649)	5,536
Revision of prior year estimates		5,891	(75,029)
	$	(576,806)	115,852
Current tax expense	$	5,891	76,086
Deferred tax expense		(582,697)	39,766
	$	(576,806)	115,852

The increase in the combined Canadian federal and provincial statutory income tax rate is reflective of provincial tax rate increases in several Canadian provinces during the year ended September 30, 2013.

Deferred taxes reflect the net tax effects of the temporary differences between the carrying value of assets and liabilities for accounting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax position are as follows:

		September 30 2013	September 30 2012	October 1 2011
Work in progress	$	(69,100)	(66,177)	(47,627)
Intangible assets		1,649	(134,136)	(22,141)
Property and equipment		78,278	(19,806)	(65,232)
Long term debt		(83,822)	(60,239)	-
Provisions		332,233	126,874	123,000
Non-capital losses		1,880,723	1,710,748	83,030
Deferred tax assets (liabilities)	$	2,139,961	1,557,264	71,030

In Canadian dollars

10. Goodwill and other intangible assets

	Computer software	Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost							
October 1, 2011	$ 197,951	265,500	154,161	-	-	-	617,612
Additions	34,708	-	28,955	1,462,791	-	-	1,526,454
Government assistance	-	-	-	(898,738)	-	-	(898,738)
Reverse takeover (Note 6)	-	-	-	903,060	585,000	1,415,007	2,903,067
September 30, 2012	$ 232,659	265,500	183,116	1,467,113	585,000	1,415,007	4,148,395
Additions	22,603	-	(2,346)	1,084,266	-	-	1,104,523
Government assistance	-	-	-	(593,431)	-	-	(593,431)
September 30, 2013	$ 255,262	265,500	180,770	1,957,948	585,000	1,415,007	4,659,487
Accumulated amortization and impairment losses							
October 1, 2011	$ 79,837	16,911	5,346	-	-	-	102,094
Amortization	69,913	67,643	56,213	155,301	55,714	-	404,784
September 30, 2012	$ 149,750	84,554	61,559	155,301	55,714	-	506,878
Amortization	44,622	67,642	61,038	311,697	83,572	-	568,571
Impairment loss	-	86,679	13,695	438,642	-	-	539,016
September 30, 2013	$ 194,372	238,875	136,292	905,640	139,286	-	1,614,465
Carrying values							
October 1, 2011	$ 118,114	248,589	148,815	-	-	-	515,518
September 30, 2012	$ 82,909	180,946	121,557	1,311,812	529,286	1,415,007	3,641,517
September 30, 2013	$ 60,890	26,625	44,478	1,052,308	445,714	1,415,007	3,045,022
Carrying values of assets subject to finance leases							
October 1, 2011	$ 1,174	-	-	-	-	-	1,174
September 30, 2012	$ 587	-	-	-	-	-	587
September 30, 2013	$ 294	-	-	-	-	-	294

Included in Technology are $1,084,266 of internally generated additions for the year ended September 30, 2013.

(a) Impairment loss

During 2013, management assessed the future strategic plans of both the CoursePark Learning Services and Defence and Aerospace segments. As a result of the assessment management has determined that certain technology assets previously acquired in the business combination have reduced future recoverable benefit. Management has recorded an impairment loss of $438,642 related to these assets. In addition, management has identified $100,374 of certain other intangibles assets with no future recoverable benefit. An impairment loss of $539,016 has been included in income for the year ended September 30, 2013.

(b) Impairment test - Goodwill

For the purpose of annual impairment testing, goodwill is allocated to the operating segments expected to benefit from the synergies of the business combinations in which the goodwill arises. All goodwill recorded at September 30, 2013 has been allocated to the CoursePark Learning Services operating segment.

The recoverable amount of the CoursePark Learning Services operating segment was based on value-in-use calculations covering a five-year forecast using estimated cash flows as determined by management. Management's key assumption includes annual growth in revenue reflective of the historical experience of the CoursePark Learning Services operating segment and consideration of trends in the market.

The present value of the expected cash flows of the operating segment was determined by applying an discount rate which reflects adjustments relating to market risk and risks specific to the CoursePark Learning Services segment.

In Canadian dollars

11. Property and equipment

		Computer equipment	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost						
October 1, 2011	$	578,742	200,441	113,640	137,196	1,030,019
Additions		63,691	1,053,329	-	129,459	1,246,479
Additions subject to finance leases		35,263	145,654	-	-	180,917
Government assistance		(24,840)	(231,468)	-	-	(256,308)
Reverse takeover (Note 4)		12,907	17,471	-	7,939	38,317
September 30, 2012	$	665,763	1,185,427	113,640	274,594	2,239,424
Additions		21,650	43,625	-	23,164	88,439
Additions subject to finance leases		37,511	-	-	-	37,511
Government assistance		-	(315,890)	-	-	(315,890)
September 30, 2013	$	724,924	913,162	113,640	297,758	2,049,484
Accumulated depreciation						
October 1, 2011	$	331,094	96,136	48,967	45,495	521,692
Depreciation		91,070	39,498	19,402	14,666	164,636
September 30, 2012	$	422,164	135,634	68,369	60,161	686,328
Depreciation		84,811	121,012	13,581	37,118	256,522
September 30, 2013	$	506,975	256,646	81,950	97,279	942,850
Carrying values						
October 1, 2011	$	247,648	104,305	64,673	91,701	508,327
September 30, 2012	$	243,599	1,049,793	45,271	214,433	1,553,096
September 30, 2013	$	217,949	656,516	31,690	200,479	1,106,634
Carrying values of assets subject to finance leases						
October 1, 2011	$	121,443	16,432	-	-	137,875
September 30, 2012	$	105,915	122,780	-	-	228,695
September 30, 2013	$	103,341	98,224	-	-	201,565

12. Operating loans

The Company has a short term bank operating line of credit to a maximum of the lesser of $2,000,000 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. The line of credit balance as at September 30, 2013 was repaid in full (September 30, 2012 – $45,000).

The Company has entered into a short term non-revolving loan in the amount of $266,000. The facility was repayable on January 31, 2013 or upon receipt of the tax refund for the 2011 SRED return and bears interest at Royal Bank prime plus 2.90%. The Company provided a General Security Agreement as security for this indebtedness. As at September 30, 2013 the balance has been repaid in full (September 30, 2012 - $266,000).

In Canadian dollars

13. Leases

(a) Obligations under finance leases

Certain intangibles assets and property and equipment are held under finance lease arrangements. Future minimum finance lease payments (including interest) at September 30, 2013 were as follows:

		1 year	1-5 years	>5 years
Lease payments	$	81,412	38,538	-

(b) Operating leases

The Company has entered into lease arrangements for office occupancy and equipment. Lease expense for the year ended September 30, 2013 was $660,224. Future minimum lease payments (including interest) at September 30, 2013 are as follows:

		1 year	1-5 years	>5 years
Lease payments	$	633,425	2,484,631	917,280

14. Long term debt

	Interest rate	Maturity		September 30 2013	September 30 2012	October 1 2011
Volkswagon Finance	4.40%	2010-2015	$	25,332	39,657	53,361
Toyota Financial Services	1.90%	2009-2013		883	11,380	21,678
Province of Newfoundland and Labrador	4.75%	2016-2019		410,653	465,942	-
Atlantic Canada Oportunities Agency	-	2012-2017		328,569	392,208	-
Government of Nova Scotia	5.00%	2013-2021		1,162,000	838,845	-
Atlantic Canada Oportunities Agency	-	2013-2018		368,580	127,164	-
Invest New Brunswick	-	2013-2014		239,496	221,141	-
				2,535,513	2,096,337	75,039
less: current portion				(470,340)	(192,534)	(24,002)
Total long term debt			$	2,065,173	1,903,803	51,037

Certain long term debt facilities provided by government entities have been provided at interest rates below market. At inception, these loans have been recorded at their estimated fair values with the discount treated as government assistance. For the year ended September 30, 2013, $183,215 (September 30, 2012 - $260,766) has been included in income and $138,124 (September 30, 2012 - $213,450) has been included as a reduction in the cost of property and equipment related to the discount on these loans.

During the year ended September 30, 2013, Bluedrop entered into the following long term debt arrangements:

(i) Atlantic Canadian Opportunities Agency (ACOA)

During the period, the Company received $290,788 in connection with a $469,875 funding contribution from ACOA to assist with the establishment and operation of the Bluedrop Training and Simulation Centre (BTSC). The unsecured, non-interest bearing loan is repayable in monthly instalments of $7,832 commencing on October 1, 2013.

In Canadian dollars

14. Long term debt (continued)

(ii) Province of Newfoundland and Labrador

In February 2013, the Province of Newfoundland and Labrador amended the terms of the $500,000 loan arrangement with the Company. Repayment terms have been extended from 48 months beginning January 2013 to 48 months beginning January 2016. The loan is non-interest bearing until January 2014 after which interest will accrue at a rate of 4.75% per annum. As security for the loan, the Company provided a demand promissory note, a General Security Agreement (subordinated to the Royal Bank) and a corporate Guarantee from LB2P.

(i) Government of Nova Scotia

In April 2013, the Company received a second instalment payment in the amount of $461,924 in connection with a $1,700,000 term loan from the Government of Nova Scotia to assist with the establishment and operation of the BTSC. The loan bears interest at 5% per annum, interest only payable until June 1, 2013, at which time the loan is repayable in 107 monthly instalments of $9,616 plus interest commencing on October 1, 2013 and a final lump sum payment of $471,540 plus interest on May 1, 2022.

15. Provisions

(a) Conditionally-repayable grants

To September 30, 2013 the Company had recognized AIF contributions of $2,531,111 pursuant to a 2008 agreement, as amended and AIF contributions of $1,869,118 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:

		September 30 2013	**September 30 2012**	**October 1 2011**
Opening balance	$	469,903	424,004	395,197
Accretion		65,786	59,361	55,328
Royalties paid or payable		(51,082)	(14,878)	(31,395)
Additions and revaluations		701,938	1,416	4,874
	$	1,186,545	469,903	424,004

The significant increase in the provision during the period is a result of increased AIF funding received in the period as well as changes in the expected timing of the future repayments.

(b) Forgivable loan

The Company received a loan from the Province of New Brunswick in the amount of up to $260,000 for the purpose of assisting with the expansion of the Company's operations in New Brunswick. The Company is entitled to have the loan, including any accrued interest thereon, forgiven in accordance with a forgiveness agreement between the parties. Any portion of the loan that is not forgiven in accordance with the loan agreement and the forgiveness agreement is repayable with accrued interest no later than four years after the date of the first advance. The initial loan advance of $130,000 was received in October 2009 and the second and final loan advance of $130,000 was received in November 2010. These advances were recorded as reductions of direct labour costs.

If the loan was deemed repayable at September 30, 2013, the estimated amount owing, including accrued interest would be $300,844. Management does not anticipate any repayment will be required and as such no provision has been recorded.

In Canadian dollars

16. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

(i) Blue Drop Inc. prior to reverse takeover:

	Number of Shares	Share capital
Blue Drop Inc. - Class A common shares		
Issued and outstanding at October 1, 2011	5,127,451	$ 80,301
Issued and outstanding at January 26, 2012	5,127,451	80,301
Blue Drop Inc. - Class C common shares		
Issued and outstanding at October 1, 2011	187,605	8
Shares issued upon exercise of options	377,369	609,451
Issued and outstanding at January 26, 2012	564,974	609,459
Issued and outstanding at January 26, 2012	5,692,425	$ 689,760

(ii) Serebra Learning Corporation prior to reverse takeover:

In connection with the reverse-takeover, Serebra Learning Corporation effected a consolidation of its common shares resulting in one common share for every four pre-consolidation shares. The share consolidation has been applied retrospectively to the balances of outstanding common shares, share purchase warrants and share options.

	Number of Shares	Share capital
Issued and outstanding at October 1, 2011	9,669,004	$ 11,663,735
Share proceeds received	-	13,500
Private placement, net of share issue costs	1,576,197	360,842
Issued as compensation to directors, officers, employees and consultants	875,000	315,000
Issued and outstanding at January 26, 2012	12,120,201	$ 12,353,077

(iii) Bluedrop Performance Learning Inc. subsequent to reverse takeover:

	Number of Shares	Share capital
Blue Drop Inc. shares prior to acquisition	5,692,425	$ 689,760
Elimination of Blue Drop Inc. share capital	(5,692,425)	-
Issuance of common shares on reverse takeover (Note 4)	86,866,408	4,363,261
Outstanding shares of Serebra brought forward	12,120,201	-
Issued and outstanding at January 26, 2012	98,986,609	5,053,021
Issued and outstanding at September 30, 2012 and September 30, 2013	98,986,609	$ 5,053,021

In Canadian dollars

16. Share capital (continued)

(c) Share purchase warrants (adjusted for share consolidation)

(i) Serebra Learning Corporation prior to reverse takeover:

	Number of warrants	Exercise price per share
Outstanding at October 1, 2011	2,680,933	$0.60
Expired	(1,785,933)	$0.60
Outstanding at January 26, 2012	895,000	$0.60

(ii) Bluedrop Performance Learning Inc. subsequent to reverse takeover:

	Number of warrants	Exercise price per share
Outstanding share purchase warrants of Serebra brought forward	895,000	$0.60
Expired	(895,000)	$0.60
Outstanding at September 30, 2012 and September 30, 2013	-	-

(d) Share options (2010 Stock Option Plan) (adjusted for share consolidation)

(i) Serebra Learning Corporation prior to reverse takeover:

	Number of options	Exercise price per share
Outstanding at October 1, 2011	866,250	$0.40
Granted	277,114	$0.40
Outstanding at January 26, 2012	1,143,364	$0.40

(ii) Bluedrop Performance Learning Inc. subsequent to reverse takeover:

	Number of options	Exercise price per share
Share options of Serebra brought forward	1,143,364	$0.40
Outstanding at September 30, 2012	1,143,364	$0.40
Expired	(880,989)	$0.40
Outstanding and exercisable at September 30, 2013	262,375	$0.40

The Company had reserved 1,143,364 shares under its 2010 Stock Option Plan. Pursuant to the terms and conditions of this plan, 862,239 of the outstanding options would have expired on termination of service following the reverse takeover. The expiry date on options that would have expired was extended for a one year period, expiring on January 26, 2013. Upon conclusion of the reverse takeover, these stock options were deemed to be exchanged for options of the accounting acquirer.

In Canadian dollars

16. Share capital (continued)

(e) Share options (2011 Stock Option Plan)

	Number of options	Exercise price per share
Outstanding at October 1, 2011	-	-
Granted, March 8, 2012	6,982,110	$0.26
Granted, June 14, 2012	939,661	$0.15
Granted, September 12, 2012	450,000	$0.15
Forfeitures	(543,375)	$0.26
Expired	(60,375)	$0.26
Outstanding at September 30, 2012	7,768,021	$0.24
Forfeitures	(1,318,875)	$0.19
Expired	(288,375)	$0.22
Outstanding at September 30, 2013	6,160,771	$0.25
Exercisable at September 30, 2013	1,848,231	$0.25

Pursuant to the 2011 Stock Option Plan, the Company has reserved a maximum of 16,827,718 of common shares of the Company for issuance on the exercise of share options. During the year ended September 30, 2012, the Company granted 8,371,771 options to certain directors, officers and employees of the Company under the plan. These options expire five years after the date of grant and vest over a three year period as follows: 10% at time of grant; 20% on the first anniversary; 20% on the second anniversary and 50% on the third anniversary.

The Company recorded $363,181 of share-based compensation expense in the year ended September 30, 2013 relating to the 2011 Stock Option Plan (September 30, 2012 - $502,434). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options granted in the year ended September 30, 2012:

Risk free interest rate	1.31%
Expected dividend yield	0%
Share price volatility	109%
Expected life	3.6 years
Average fair value of options granted	$0.1687

(f) Blue Drop share options

On March 21, 2011 Blue Drop granted options to purchase 377,369 Class C non-voting common shares at an exercise price of $0.45 per Class C common share. The options were immediately exercisable by the grantee, with expiry five years after the effective date of the option grant, unless terminated in accordance with the associated Employee Stock Option Agreement. Blue Drop recorded $439,635 as share-based compensation expense on the grant date, with a corresponding increase in share based option reserve.

On January 11, 2012 the options were exercised for proceeds of $169,816, resulting in a reduction of $439,635 in share option reserve and an increase in share capital of $609,451. There were no Blue Drop share options outstanding at the time of the reverse takeover.

In Canadian dollars

17. Government assistance

		2013	2012
Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (AIF)	$	1,155,416	832,079
less: additions and revaluation of AIF provision		(701,938)	(1,416)
National Research Council Canada - Industrial Research Assistance Program		148,139	132,874
Invest New Brunswick		314,021	156,022
Scientific Research and Experimental Development credits		249,496	928,980
Nova Scotia Digital Media Tax Credits		235,844	-
Nova Scotia Capital Investment Incentive		177,766	-
Discounts on below-market interest rate financial liabilities		321,339	474,216
	$	1,900,083	2,522,755
Government assistance included in:			
Net earnings		896,327	1,367,709
Deferred revenue		94,435	-
Intangible assets		593,431	898,738
Property and equipment		315,890	256,308
	$	1,900,083	2,522,755

18. Finance costs

		2013	2012
Interest on long term debt	$	73,067	35,633
Interest on finance lease obligations		8,870	9,831
Short term interest and bank charges		48,101	39,694
Accretion of long term debt		148,286	51,890
Accretion of provisions		65,786	59,361
Other financing costs		37,552	13,095
Total finance costs	$	381,662	209,504

19. Changes in non-cash working capital

		2013	2012
Accounts receivable	$	1,040,905	(1,255,848)
Work in progress		(3,371)	(191,601)
Income taxes recoverable		16,131	80,869
Prepaid expenses		(47,736)	(195,651)
Accounts payable and accruals		88,181	454,489
Deferred revenue		(702,153)	(271,365)
	$	391,957	(1,379,107)
Changes in non-cash working capital related to:			
Operating activities		174,545	(654,530)
Investing activities		217,412	(724,577)
	$	391,957	(1,379,107)

20. Financial instruments

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. The Company does not currently use derivative financial instruments.

A summary of the major financial instrument risks and the Company's approach to management of these risks are outlined below:

(a) Fair value

In the event that the Company has financial instruments required to be recorded at fair value on the statement of financial position, these would be classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value estimation measurements. The fair value hierarchy has the following levels:

i) Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.

ii) Level 2 fair value measurement are those derived from inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments at September 30, 2013 approximates their carrying value and have been determined using level 2 inputs.

(b) Interest rate risk

The Company's bank indebtedness is at a floating interest rate and as such the Company is exposed to interest rate risk. The Company's obligations under finance leases are at fixed interest rates. A significant portion of long term debt is from government entities at below-market interest rates which are fixed or are non-interest bearing. As such, the Company's exposure to fluctuations in interest rates is not considered material.

(c) 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 U.S. dollars. The exposure to currency risk is not considered material and as such the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(d) 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 work in progress. One customer accounted for 36% of revenue and 58% of the Company's trade receivables at September 30, 2013 (September 30, 2012 – 53% and 41%).

An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The allowance for doubtful accounts at September 30, 2013 was Nil (September 30, 2012 - $35,764). At September 30, 2013 the Company's trade accounts receivable included amounts over 90 days old totaling $256,434 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (September 30, 2012 - $419,757).

In Canadian dollars

20. Financial instruments (continued)

(e) 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 contractual maturities (including interest payments where applicable) of the Company's financial liabilities are summarized below:

		1 year	1-5 years	>5 years
Accounts payable and accruals		1,754,576	-	-
Obligations under finance leases		81,412	38,538	-
Long term debt		658,387	1,791,406	1,195,013
	$	2,494,375	1,829,944	1,195,013

21. Capital management

The Company's capital management objective is to provide returns to shareholders and benefits to other stakeholders. The capital of the Company includes obligations under finance leases, long term debt and equity (comprised of share capital, share option reserve and deficit).

The Company is not subject to any externally imposed capital requirements.

22. Expenses classified by nature

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

		2013	2012
Salaries and employee benefits	$	8,428,083	6,720,080
Materials, services and supplies		1,544,972	904,460
Travel and living		501,533	627,014
Occupancy		664,236	509,299
Professional fees		444,735	612,469
Other costs		1,031,997	735,536
Total expenses classified by nature	$	12,615,556	10,108,858

In Canadian dollars

23. Segment reporting

Bluedrop's business is organized and managed as two complementary lines of business.

The CoursePark Learning Services business provides learning management solutions and content to private and public sector customers. *CoursePark*™ is an innovative cloud-based learning management solution for individuals, corporations and other organizations. Following the commercial release of *CoursePark*™ in 2011, revenues are generated from custom courseware development, licencing and subscription fees, consulting services and sale of commercial off-the-shelf courses.

The Defence & Aerospace business provides custom courseware development, training products, low cost simulation and resource augmentation solutions to improve the safety, productivity and efficiency of military and civil aviation personnel.

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

		2013			
		CoursePark Learning Services	**Defence and Aerospace**	**Corporate and Other**	**Total**
Revenue	$	3,556,950	7,970,815	-	11,527,765
Direct costs		1,434,919	4,571,252	-	6,006,171
Gross profit		2,122,031	3,399,563	-	5,521,594
Expenses					
Sales and marketing		1,661,086	1,066,719	39,465	2,767,270
General and administration		867,681	676,515	2,297,919	3,842,115
Government assistance		(446,254)	(311,885)	(138,188)	(896,327)
Share-based compensation		98,747	84,000	180,434	363,181
Finance costs		-	-	381,662	381,662
Depreciation and amortization		570,659	175,583	78,851	825,093
Impairment loss		461,337	77,679	-	539,016
		3,213,256	1,768,611	2,840,143	7,822,010
Earnings (loss) before income taxes	$	(1,091,225)	1,630,952	(2,840,143)	(2,300,416)

		2012			
		CoursePark Learning Services	**Defence and Aerospace**	**Corporate and Other**	**Total**
Revenue	$	2,379,025	7,739,507	-	10,118,532
Direct costs		1,019,081	4,081,725	-	5,100,806
Gross profit		1,359,944	3,657,782	-	5,017,726
Expenses					
Sales and marketing		713,228	1,033,557	-	1,746,785
General and administration		348,300	422,891	2,490,076	3,261,267
Government assistance		(1,268,787)	(55,050)	(43,872)	(1,367,709)
Share based compensation		167,337	128,212	206,885	502,434
Finance costs		-	-	209,504	209,504
Depreciation and amortization		382,940	106,266	80,214	569,420
		343,018	1,635,876	2,942,807	4,921,701
Earnings (loss) before income taxes	$	1,016,926	2,021,906	(2,942,807)	96,025

24. Comparative figures

Comparative figures have been reclassified to conform with the September 30, 2013 statement of comprehensive (loss) income presentation. Presentation changes include reclassification of certain costs previously classified as direct costs to sales and marketing and general and administration and reclassification of certain costs previously included in general and administration to finance costs. In addition, presentation also reflects segregation of revenue classifications and government assistance.

25. Subsequent events

(a) Amendment to credit facilities

On December 17, 2013, the Company amended its Credit Facilities Agreement with Royal Bank of Canada to increase its 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.

(b) Business combination - Atlantis System Corp.

On December 31, 2013 the Company acquired all the issued and outstanding common shares of Atlantis System 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 the defence and aerospace markets and provide a foundation for future growth into international markets.

The cash consideration transferred in the arrangement was $1,000,000. The long term debt arrangements of Atlantis were renegotiated concurrent with the acquisition. The Company has assumed $2,500,000 of long term debt, $1,000,000 of which was repaid immediately following the acquisition. The remaining principal and accrued interest is repayable on or before June 30, 2015. The term loan bears interest at 8% per annum. The debenture is convertible at a conversion price of $0.15 per common share, being at a rate of 6,667 common shares per $1,000 principal amount of debenture. Upon conversion, any accrued interest shall be converted into common shares at the conversion price.

As of the reporting date the Company has not yet completed its initial accounting assessment of the acquired assets and liabilities of Atlantis Systems Corp. The company is unable to disclose the fair value of assets and liabilities acquired in the transaction due to the proximity of the reporting date to the closing date of the acquisition.

(c) Convertible debenture

On December 31, 2013, the Company received financing of $3,000,000 in the form of a convertible debenture. The unsecured debenture bears interest at 14% per annum, interest payable quarterly, and is repayable on December 31, 2016. The debenture is convertible at a conversion price of $0.15 per common share, being at a rate of 6,667 common shares per $1,000 principal amount of debenture. Upon conversion, any accrued interest shall be converted into common shares at the conversion price.

(d) Royalty arrangement

On January 10, 2014, the Company received financing of $500,000 in the form of a royalty arrangement. The Company will account for the arrangement in accordance with *IAS 39 Financial Instruments: Recognition and Measurement.* The agreement requires Bluedrop to pay a royalty of 0.5% of revenues in exchange for the principal provided.