Management's Discussion and Analysis of Results of Operations and Financial Condition
For the Six Months Ended March 31, 2013

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, 2013 and should be read in conjunction with the Company's Condensed Interim Financial Statements and notes thereto for the six months ended March 31, 2013. All financial information has been prepared in accordance with International Financial Reporting Standards, except as noted. 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 28, 2013.

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 28, 2013 and are subject to change after such date.

COMPANY OVERVIEW

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

The CoursePark Learning Services business ("CLS 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 operations acquired in the reverse takeover, which also include licencing, consulting services and sale of commercial off-the-shelf courses, are included in the CLS business from January 26, 2012.

The Defence & Aerospace business ("D&A 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.

The Company's corporate office is located in St. John's, Newfoundland and Labrador, Canada. The Company currently has approximately 115 employees working at six offices in Canada.

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 was considered to be the acquirer for purposes of recording the business combination and the 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.

References in this MD&A to the Company's operations therefore refer to the operations of Blue Drop to January 26, 2012 and to the combined operations thereafter.

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 reflected the fact that the Company's personnel, technical knowledge, experience and expertise will allow for more rapid development 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

RESULTS OF OPERATIONS

The following tables and discussion compare Bluedrop's operating results for the quarter and year-to-date periods ended March 31, 2013 to the same periods ended March 31, 2012.

(Canadian dollars in thousands)	3 months ended March 31		Change (2013 vs. 2012)	
	2013	**2012**	**$**	**%**
Revenue				
Services revenue	2,448	2,271	177	8%
Product sales	759	141	618	438%
	3,207	2,412	795	33%
Direct costs	1,637	1,318	319	24%
Gross profit	1,570	1,094	476	44%
Gross profit percentage	49%	45%		
Expenses				
Sales and marketing	690	385	305	79%
General and administration	999	924	75	8%
Government assistance	(346)	(181)	(165)	91%
Share-based compensation	131	184	(53)	-29%
Finance costs	87	51	36	71%
Depreciation and amortization	206	140	66	47%
	1,767	1,503	264	18%
Earnings (loss) before income taxes	(197)	(409)	212	-52%
Income taxes	(15)	(97)	82	-85%
Net Earnings (loss)	(182)	(312)	130	-42%

(Canadian dollars in thousands)	6 months ended March 31		Change (2013 vs. 2012)	
	2013	**2012**	**$**	**%**
Revenue				
Services revenue	4,644	4,301	343	8%
Product sales	956	192	764	398%
	5,600	4,493	1,107	25%
Direct costs	3,066	2,388	678	28%
Gross profit	2,534	2,105	429	20%
Gross profit percentage	45%	47%		
Expenses				
Sales and marketing	1,296	714	582	82%
General and administration	1,816	1,697	119	7%
Government assistance	(789)	(902)	113	-13%
Share-based compensation	282	184	98	53%
Finance costs	175	77	98	127%
Depreciation and amortization	411	223	188	84%
	3,191	1,993	1,198	60%
Earnings (loss) before income taxes	(657)	112	(769)	-687%
Income taxes	(68)	88	(156)	-177%
Net Earnings (loss)	(589)	24	(613)	-2554%

Revenue

For the quarter ended March 31, 2013 revenues were $3,206,900, an increase of $794,406 (33%) as compared to the same period in 2012. For the six months ended March 31, 2013 revenues were $5,599,854, an increase of $1,106,912 (25%) over the same period in the prior year.

The following tables illustrate the growth and shift in revenues from each identified market channel for the quarter ended March 31, 2013.

	3 Months ended March 31				Change (2013 vs. 2012)	
	2013	% of total	2012	% of total	$	%
Revenue						
Defense & Aerospace	2,117	66%	1,729	72%	388	22%
CoursePark Learning Services	1,090	34%	683	28%	407	60%
	3,207	100%	2,412	100%	795	33%

	6 Months ended March 31				Change (2013 vs. 2012)	
	2013	% of total	2012	% of total	$	%
Revenue						
Defense & Aerospace	3,818	68%	3,305	74%	513	16%
CoursePark Learning Services	1,782	32%	1,188	26%	594	50%
	5,600	100%	4,493	100%	1,107	25%

Revenues in the CLS business were significantly higher in the quarter and year-to-date periods primarily as a result of additional licensing sales of the *CoursePark*™ platform. In addition, revenues increased as a result of operations acquired in the reverse takeover on January 26, 2012.

The increased revenues in the D&A business are reflective of the business units continued growth in providing custom courseware development services to the military and aviation industries.

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 or funded products.

For the quarter ended March 31, 2013 total direct costs were $1,637,313, an increase of $318,259 (24%) over the same quarter in the prior period. For the six months ended March 31, 2013 direct costs were $3,066,089, an increase of $677,797 (28%) over the same period in the prior year.

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

Gross profit

For the quarter ended March 31, 2013 gross profit was $1,569,587, an increase of $476,147 (44%) over the same quarter in the prior period. The reported gross profit percentage for the quarter ended March 31, 2013 was 49% as compared to 45% for the same period in the prior year.

For the six months ended March 31, 2013 gross profit was $2,533,765, an increase of $429,115 (20%) over the same quarter in the prior period. The reported gross profit percentage for the period ended March 31, 2013 was 45% as compared to 47% for the same period in the prior year.

The D&A business unit gross profit for the six months ended March 31, 2013 was $1,504,209 versus $1,498,906 for the same period in 2012. The gross profit percentage was 39% for the current period versus 45% for the prior period. The D&A decrease in gross profit was primarily a result of delays in executing various follow on deliverables associated with a single contract that was put in a temporary hiatus status. This caused the Company to reduce revenue recognition associated with the specific contract and also caused delays in delivery of the associated follow up deliverables. Management is working with the customer to get the contract back into production within the fiscal year so that both the primary deliverables as well as the associated follow on deliverables can be moved forward. The Company took steps to deploy the affected employees in the period but not without some delays which resulted in less billable hours and utilization than expected in the period.

The CLS business unit gross profit for the six months ended March 31, 2013 was $1,029,556 as compared to $605,744 the same period in 2012, resulting in a gross margin of 58% versus 51% for the same period in 2012. The CLS increase in gross profit was as a result of growth in CoursePark™ licensing sales within the period and operations acquired in the reverse takeover. The revenue mix will continue to vary by quarter but it is expected that it will be within the normal ranges over the fiscal period.

Sales and marketing

For the quarter ended March 31, 2013 sales and marketing expenses were $689,430, an increase of $304,397 (79%) over the same quarter in the prior period. For the six months ended March 31, 2013 sales and marketing expenses were $1,295,637, an increase of $581,531 (81%) over the same period in the prior year.

The increased costs include increased wages and employee benefits, increased travel costs and increased marketing and promotional costs, all of which relate to the Company's increased investment in sales and marketing effort across all market channels.

General and administration

For the quarter ended March 31, 2013 net general and administration expenses were $998,002, an increase of $73,855 (8%) over the same quarter in the prior period. For the six months ended March 31, 2013 general and administration expenses were $1,816,383, an increase of $119,907 (7%) over the same period in the prior year.

Increases in wages and benefits, operating supplies, occupancy, communications and other administration costs are generally in line with the overall growth of the business.

Government assistance

Government assistance includes contributions from the Atlantic Innovation Fund ("AIF"), National Research Council Canada Industrial Research Assistance Program ("NRC-IRAP"), Invest New Brunswick ("Invest NB"), the federal and provincial Scientific Research and Experimental Development ("SRED") and Digital Media Tax Credit ("DMTC") programs. The difference between the fair value at inception of below market interest loans and the loan proceeds received is also recorded as government assistance.

For the quarter ended March 31, 2013 government assistance was $346,497, an increase of $165,574 (92%) over the same quarter in the prior period. The increase over the previous quarter is primarily attributed to new funding related to NRC-IRAP and Invest NB programs which were not available in 2012. In addition, 2013 includes recognition of DMTCs which were not considered in the comparative quarter in 2012.

For the six months ended March 31, 2013 government assistance was $788,545, a decrease of $113,747 (13%) over the same period in the prior year. Government assistance for the six months ended March 31, 2013 included

$46,000 relating to the current year's SRED claim whereas the six months ended March 31, 2012 government assistance included $670,000 relating to SRED claims for the taxation periods ended December 31, 2010 and 2011. This decrease was offset by new assistance related to NRC-IRAP, Invest NB and DMTC programs

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. During the quarter the Company did not grant any further options under the plan.

The Company recorded $130,908 as share-based compensation expense for the quarter ended March 31, 2013 (2012 - $184,066) and $282,120 for the six months ended March 31, 2013 (2012 - $184,066) and recorded a corresponding increase in the share option reserve.

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:

Risk free interest rate	1.31%
Expected dividend yield	0%
Share price volatility	109%
Expected life	3.6 years

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.

The Company had 7,987,046 options outstanding as at March 31, 2013 related to the above stock option plans.

Finance costs

For the quarter ended March 31, 2013 finance costs were $87,341, an increase of $36,785 (73%) over the same quarter in the prior period. For the six months ended March 31, 2013 finance costs were $174,758, an increase of $98,276 (128%) over the same period in the prior year.

The year-to-date increase is a result of an increase in long term debt interest and accretion of $80,455. The increase is reflective of the additional long term debt borrowings used to fund growth throughout 2012 and 2013.

Depreciation and amortization

For the quarter ended March 31, 2013 depreciation and amortization expense was $206,441, an increase of $66,413 (47%) over the same quarter in the prior year. For the six months ended March 31, 2013 depreciation and amortization expense was $410,783, an increase of $187,404 (84%) over the same period in the prior year.

The increase is related to investment in capital assets and intangible assets, amortization of deferred development costs and amortization of the technology and customer relationship intangible assets recognized on the reverse takeover of Serebra as noted above.

The Company invested $648,628 in capital assets and intangible assets (including assets financed by finance leases) during the six months ended March 31, 2013. The additions were offset by government assistance totaling $670,393 towards the cost of these assets.

Earnings before income taxes

For the quarter ended March 31, 2013 the loss before income taxes was $196,038 and loss before income taxes over the same quarter in the prior year were $409,467. For the six months ended March 31, 2013 loss before income taxes was $657,321 and earnings before income taxes of $112,433 in the same period in the prior year.

Income taxes

For the quarter ended March 31, 2013 income tax recovery was $14,516 and the income tax recovery was $97,328 from the same quarter in the prior year. For the six months ended March 31, 2013 income tax recovery was $68,049 and income tax expense of $88,345 in the same period in the prior year

Net earnings (loss)

For the quarter ended March 31, 2013 the Company reported a net loss of $181,522 as compared to net loss of $312,139 for the same quarter in the prior period. For the six months ended March 31, 2013 the Company reported a net loss of $589,322 as compared to net earnings of $24,088 for the same quarter in the prior period.

QUARTERLY INFORMATION

The table below provides a summary of operating results for the Company for each quarter in the current and previous fiscal periods. Certain quarterly information below has been restated and more fully described in note 3 of the Condensed Interim Financial Statements for the quarter ended March 31, 2013. 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**	**2013**	**2013**	**2012**	**2012**	**2012**	**2012**	**2011**	**2011**
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	Mar-13	Dec-31	Sep-12	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30
Revenue								
Defence & Aerospace	$2,117	$1,701	$1,599	$2,837	$ 1,730	$ 1,575	$ 1,722	$ 2,269
CoursePark Learning Services	1,090	692	1,032	512	682	505	284	350
Corporate and other	-	-	-	-	-	-	19	-
	3,207	2,393	2,631	3,349	2,412	2,080	2,025	2,619
Direct costs	1,637	1,429	1,028	1,689	1,318	1,069	1,102	1,228
Gross profit	1,570	964	1,603	1,660	1,094	1,011	923	1,391
Gross profit percentage	49%	40%	61%	50%	45%	49%	46%	53%
Expenses								
Sales and marketing	690	606	670	362	385	329	236	169
General and administration	999	818	782	783	924	772	728	393
Development costs	-	-	-	-	-	-	417	308
Government assistance	(346)	(442)	(364)	(103)	(181)	(721)	(143)	(144)
Loss on investments and advances	-	-	-	-	-	-	217	-
Share-based compensation	131	151	204	114	184	-	-	-
Finance costs	87	88	78	55	51	26	73	2
Depreciation and amortization	206	204	175	171	140	83	73	41
	1,767	1,425	1,545	1,382	1,503	489	1,601	769
Profit (loss) before income taxes	(197)	(461)	58	278	(409)	522	(678)	622
Income taxes (recovery)	(15)	(53)	(22)	139	(97)	186	(64)	90
Net profit (loss)	$ (182)	$ (408)	$ 80	$ 139	$ (312)	$ 336	$ (614)	$ 532

Fiscal 2013

During the first two quarters of 2013, the D&A business experienced decreased revenues and gross profit as a result of delays in executing various follow on deliverables associated with a single contract that was put in a temporary hiatus status, as noted in the Gross Profit section above. The Company took steps to deploy the affected employees in the second quarter but not without some delays which resulted in less billable hours and utilization than expected.

Fiscal 2012

The significant increase in revenue, gross profit and net profit in Q3 reflected the Company's second simulator sale in the D&A business. The increase in revenues and gross profit in Q4 reflects the commencement of a large contract in the CLS business in September 2012.

Sales and marketing costs have increased as a result of increased relevant wages and employee benefits, travel costs and marketing and promotional costs as noted above. General and administrative expenses during Q2 included professional fees relating to the reverse takeover. In addition to planned government assistance from ACOA (AIF), the Company recorded $670,000 in government assistance relating to SRED claims for F2010 and F2011, contributing to a net profit for Q1.

Fiscal 2011

The significant increase in revenue, gross profit and net profit in Q3 reflected the ramping of work on a fixed- price D&A business contract, as well as the Company's first sale of a Hercules Observer Trainer ("HOT") in the D&A business.

Revenues were lower in Q4 than in Q3 due to the HOT sale in Q3. An increase in professional fees relating to the reverse takeover plus a write-down of a loan advance contributed to the loss for the quarter.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended March 31, 2013 the Company used cash and cash equivalents of $18,882 (2012 - $103,447).

Operating activities

For the six months ended March 31, 2013 the Company's cash used for operating activities was $1,499,233, an increase of $470,191 for the same period in the prior year. The change in cash used for operating activities relates to temporary changes in the timing of client billings and cash receipts ($356,956 increase in trade receivable) as well as receivables relating to operating activity government assistance recorded in the period ($146,641 decrease in receivables).

The timing of revenue recognition also differs from contract payment schedules. Amounts billed in accordance with customer contracts but in advance of completion of services or delivery of goods are recorded as deferred revenue. The value of unbilled services performed is recorded as work in progress. The decrease in deferred revenue for the period was $352,703 and the increase in work in progress was $1,232,087. Subsequent to the balance sheet date, a significant portion of the work in progress was billed and collected.

Accounts payable increased by $210,640 primarily as a result of increased costs associated with subcontracted project activities.

Investing activities

For the six months ended March 31, 2013 the Company generated cash of $457,093 for investing activities compared to cash used of $434,243 for the same period in the prior year.

Investment in intangible assets for the period was $562,789 offset by government assistance of $492,627 related to the development of *CoursePark*™.

Property and equipment additions of $85,839 in the period were offset by government assistance of $177,766.

Changes in non-cash working capital for the period included a $412,579 decrease in government assistance receivables related to investing activities.

Financing activities

For the six months ended March 31, 2013 the Company generated $1,023,258 in cash from financing activities as compared to generating $1,359,838 in cash for financing activities for the same period in the prior year.

Financing activities for the six months ended March 31, 2013 included a $1,064,000 increase in operating loans, $166,162 in advances of long term debt, offset by repayments of $61,025 against finance lease obligations and $62,303 against long term debt.

Cash and credit availability

At March 31, 2013 the Company was indebted to banks for $1,494,266 as compared to net indebtedness of $419,051 at September 30, 2012. Subsequent to the balance sheet date, the bank indebtedness was materially reduced using funds collected from work in progress billed.

On April 26, 2012, the Company executed a new Credit Facilities Agreement with Royal Bank of Canada increasing its 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. In addition the Company has a VISA travel and expense credit facility of $200,000 and a lease facility of $250,000 to support future investment in capital assets.

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, 2013:

Scheduled payments due by period (Canadian dollars in thousands)	**Long term debt**	**Capital leases**	**Operating leases**	**Total**
2013 (year ended September 30)	133	67	322	522
2014	610	81	588	1,279
2015	347	22	525	894
2016	432	11	527	970
2017	463	6	524	993
Thereafter	1,006	-	1,440	2,446
	$ 2,991	$ 187	$ 3,926	$ 7,104

During the six months ended March 31, 2013 the Company executed new finance leases with total payment obligations in the amount of $37,512.

PROVISIONS AND CONTINGENT LIABILITIES

(a) Conditionally Repayable Grants

To March 31, 2012 the Company had recognized AIF contributions of $2,531,111 pursuant to a 2008 agreement with ACOA, as amended and contributions of $1,248,598 pursuant to an AIF agreement entered into with ACOA in 2012. The 2012 ACOA agreement is for a maximum contribution of $3,000,000 over the life of the agreement. The Company must repay the contributions by annual installments 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 2013	**September 30 2012**
Opening balance	$ 469,903	424,004
Accretion	32,894	59,361
Royalties paid or payable	(50,859)	(14,878)
Revaluation of provision	16,250	1,416
	$ 468,188	469,903

(b) Joint and Several Mortgage Liability

The Company is jointly and severally liable for a mortgage issued in the names of LB2P, the Company and Rizbollo Holdings Limited. The principal balance on the mortgage at March 31, 2013 was $1,030,500. The liability is recorded on the balance sheet of LB2P which owns the asset securing the indebtedness. Should LB2P fail to meet the obligations under the mortgage, the Company may be required to satisfy those obligations. The loan bears interest at the Business Development Bank of Canada's floating base rate less 0.25% which, at March 31, 2013 was 4.75%, and is repayable in monthly principal installments of $4,500 plus interest until April 2032. Management does not anticipate any payments will be required by the Company and as such no provision has been recorded.

(c) 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 periods 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 March 31, 2013, the estimated amount owing, including accrued interest would be $294,848. Management does not anticipate any repayment will be required and as such no provision has been recorded.

SHARE INFORMATION

At March 31, 2013 the Company had issued 98,986,609 common shares and 7,987,046 share options that can be exercised when vested to obtain an equivalent number of common shares. No shares or share options were issued during the six months ended March 31, 2013.

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 quarter ended March 31, 2013:

- The Company recorded rent expense of $57,960 for the quarter ended March 31, 2013 (2012 - $57,960) for rental of premises from LB2P a company controlled by the Company's President & CEO. 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 of 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 $153,350 for the quarter ended March 31, 2013 (2012 - $127,850) 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 (commencing January 26, 2012), the President & Chief Executive Officer and the Chief Financial Officer. The former CFO was engaged on a fee for service basis from November 1, 2010 to December 31, 2011, at which time he became a full time employee of the Company. The Executive Chairman's fees are paid to a corporation under his control.

- The Company recognized an expense of $51,780 for the quarter ended March 31, 2013 (2012 – 78,218) for share based compensation to its key management personnel (as described in the above bullet).

- On January 11, 2012 the Company issued loans to two employees aggregating $169,816 to facilitate the exercise of share purchase options and the purchase of shares. These shares were subsequently exchanged for shares in the Company in connection with the reverse takeover. 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.

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 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.

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 recorded a deferred tax asset on the reverse takeover more fully described in the Company's financial statements for the year ended September 30, 2012. 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. Government assistance may be overstated if the costs claimed are determined to be ineligible.

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 capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised 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) Business combinations

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Significant estimates include the amount and timing of future cash flows and discount rates used in measuring the fair value of intangible assets acquired in a business combination.

(b) Fair value of financial liabilities

The Company has received long term debt financing at below-market interest rates. The fair value of these financial liabilities 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.

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 is currently completing multi-period contracts that collectively accounted for 31% of the Company's total revenue for the six months ended March 31, 2013. The loss of these contracts and/or a failure to secure similar contracts in the future could have a significant impact on the Company's financial condition and results of operations.

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 D&A business and by expanding its sales channels and courseware content portfolio for the CLS 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, 2013 approximately 24% (September 30, 2012 – 41%) of trade receivables were due from one customer. In accordance with contract terms, the Company bills certain customers in advance of the completion of work and records such billings as deferred revenue. This customer's trade receivable balance is substantially offset by amounts recorded 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, 2013 was Nil (September 30, 2012 - $35,764). At March 31, 2013 the Company's trade accounts receivable included amounts over 90 days old totaling $101,727 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (September 30, 2012 – $419,757).

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 2011, 2012 and to date in 2013 Bluedrop has continued to invest to support its continuing year over year revenue growth. Over this period the Company has continued to hire key management and technical personnel, has received ISO 9001:2008 certification for three of its offices, fostered key strategic relationships, invested in strategic intangible assets, secured an arrangement with a key low-cost simulator developer and has continued the commercial roll out of *CoursePark*™.

During the remainder of 2013 Bluedrop will continue to execute on its multi-period contracts within the D&A business and continue to market its *CoursePark*™ services. It is expected that the company will continue to invest in the development of the company's core technical capabilities in both *CoursePark*™ and in the newly established Bluedrop Training and Simulation Centre in Halifax.