Management's Discussion and Analysis of Results of Operations and Financial Condition
For the Nine Months Ended June 30, 2015

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") of Bluedrop Performance Learning Inc. ("Bluedrop" or "the Company") provides the reader with a view and analysis, from the perspective of management, of Bluedrop's financial results for the nine months ended June 30, 2015 and should be read in conjunction with the Company's Condensed Consolidated Interim Financial Statements and notes thereto for the nine months ended June 30, 2015. All financial information has been prepared in accordance with International Financial Reporting Standards. All monetary amounts are stated in Canadian dollars. References to years are to the fiscal years ended September 30th unless otherwise noted. This MD&A has been prepared as of August 28, 2015.

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

Caution Regarding Forward-Looking Information

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

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

COMPANY OVERVIEW

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

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

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

BUSINESS COMBINATION

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

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

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

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

DISCUSSION OF OPERATIONS

Bluedrop Training and Simulation

During the third quarter of fiscal 2015 the Bluedrop Training and Simulation business unit continued to benefit from the combined operations of the Atlantis acquisition and increased its focus on strategic development in simulation markets.

The business unit continued to recognize significant revenues consistent with those achieved in the previous quarter. This included the renewal of a staffing support contract for the Maritime Helicopter Training Centre (MHTC) in addition to a follow-on contract to provide a second virtual reality based helicopter simulator to the Colombian National Police Force awarded in the second quarter of fiscal 2015. During the quarter ended June 30, 2015 the business unit was awarded a significant contract to provide services under the Arctic Offshore Patrol Ships (AOPS) program. As at June 30, 2015, the business unit has an estimated revenue backlog[1] of $38.2 million. The business unit continues to pursue several multi-year renewals, extension bids and new contracts.

During the quarter, the business unit continued to focus on developing strategic product based offerings with a goal of working with large scale aerospace equipment manufacturers to develop low cost simulation offerings. On July 8, 2015, Bluedrop Training and Simulation and The Boeing Company ("Boeing") announced a partnership to develop a next generation rear crew trainer for the CH-47 Chinook Helicopter. The program is supported by Industry Canada's Investment Framework and the new Value Proposition guidelines. Under the partnership, Bluedrop will receive $2.3 million of funding and a licence to certain intellectual property associated with the Chinook. The five year commitment supports both the development of the asset as well as ongoing support of sales and marketing in the Boeing global supply chain.

Bluedrop Learning Networks

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

During the quarter ended June 30, 2015 the business unit continued to fulfil existing customer contracts while pursuing new market verticals in line with the new business model noted above. The company was awarded a significant workplace compliance contract for $3.5 million and ended the quarter with an estimated revenue backlog[1] of $6.7 million.

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

Corporate

During the nine months ended June 30, 2015, management continued improvements of the balance sheet working capital and cash availability positions.

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

The company continued to monitor fluctuations in foreign currency exchange rates which could significantly impact cash flows from contracts with US customers and assessed the potential use of hedging arrangements. During the quarter ended June 30, 2015 the Company entered into several forward contract arrangements to hedge risk from exchange rate fluctuations.

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

FINANCIAL RESULTS OF OPERATIONS

The following tables and discussion compare Bluedrop's operating results for the three months and nine months ended June 30, 2015 to the same period ended June 30, 2014.

(Canadian dollars in thousands)	Three months ended June 30 2015	2014	Change (2015 vs. 2014) $	%
Revenue				
Services revenue	4,207	3,742	465	12%
Product sales	1,146	775	371	48%
	5,353	4,517	836	19%
Direct costs	3,093	2,831	262	9%
Gross profit	2,260	1,686	574	34%
Gross profit percentage	42%	37%		
Expenses				
Sales and marketing	522	491	31	6%
General and administration	1,343	1,247	96	8%
Acquisition and restructuring costs	-	12	(12)	-100%
Government assistance	146	(336)	482	-143%
Share-based compensation	26	80	(54)	-68%
Finance costs	427	384	43	11%
Depreciation and amortization	227	227	-	0%
Other gains and losses	-	(212)	212	100%
	2,691	1,893	798	42%
Earnings (loss) before income taxes	(431)	(207)	(224)	108%
Income taxes	-	(23)	23	-100%
Net earnings (loss)	(431)	(184)	(247)	134%

(Canadian dollars in thousands)	Nine months ended June 30 2015	2014	Change (2015 vs. 2014) $	%
Revenue				
Services revenue	11,811	9,271	2,540	27%
Product sales	3,234	1,762	1,472	84%
	15,045	11,033	4,012	36%
Direct costs	8,996	6,907	2,089	30%
Gross profit	6,049	4,126	1,923	47%
Gross profit percentage	40%	37%		
Expenses				
Sales and marketing	1,417	1,999	(582)	-29%
General and administration	3,450	3,458	(8)	0%
Acquisition and restructuring costs	-	1,889	(1,889)	-100%
Government assistance	(304)	(987)	683	-69%
Share-based compensation	166	207	(41)	-20%
Finance costs	1,267	879	388	44%
Depreciation and amortization	668	620	48	8%
Other gains and losses	(428)	(206)	(222)	108%
	6,236	7,859	(1,623)	-21%
Earnings (loss) before income taxes	(187)	(3,733)	3,546	-95%
Income taxes	132	(908)	1,040	-115%
Net earnings (loss)	(319)	(2,825)	2,506	-89%

Revenue

For the three months ended June 30, 2015 revenues were $5,352,489, an increase of $835,379 (18%) as compared to the same period in 2014. For the nine months ended June 30, 2015 revenues were $15,044,441, an increase of $4,012,095 (36%) as compared to the same period in 2014.

The following tables illustrate the change in revenues from each identified operating segment for the nine months ended June 30, 2015.

	Three months ended June 30				Change (2015 vs. 2014)	
	2015	% of total	2014	% of total	$	%
Revenue						
Bluedrop Training and Simulation	4,416	82%	3,653	81%	763	21%
Bluedrop Learning Networks	937	18%	864	19%	73	8%
	5,353	100%	4,517	100%	836	19%

	Nine months ended June 30				Change (2015 vs. 2014)	
	2015	% of total	2014	% of total	$	%
Revenue						
Bluedrop Training and Simulation	12,433	83%	8,168	74%	4,265	52%
Bluedrop Learning Networks	2,612	17%	2,865	26%	(253)	-9%
	15,045	100%	11,033	100%	4,012	36%

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

Direct costs

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

For the three months ended June 30, 2015 total direct costs were $3,092,711, an increase of $261,668 (9%) over the same quarter in the prior fiscal year. For the nine months ended June 30, 2015 direct costs were $8,995,829, an increase of $2,089,319 (30%) as compared to the same period in 2014.

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

Gross profit

For the three months ended June 30, 2015 gross profit was $2,259,778, an increase of $573,711 (34%) over the same quarter in the prior period. The reported gross profit percentage for the three months ended June 30, 2015 was 42% as compared to 37% for the same period in the prior year.

For the nine months ended June 30, 2015 gross profit was $6,048,612, an increase of $1,922,776 (47%) over the same period in the prior year. The reported gross profit percentage for the nine months ended June 30, 2015 was 40% as compared to 37% for the same period in the prior year.

The Bluedrop Training and Simulation business unit gross profit for the nine months ended June 30, 2015 was $4,867,749 versus $2,365,211 for the same period in 2014. The gross profit percentage was 39% for the current period versus 29% for the prior period. The significantly lower gross profit in 2014 was a result of delays in executing several professional service contracts which were anticipated to begin in the first quarter of 2014 in addition to an adjustment to percent complete estimates associated with a significant professional services contract. On December 31, 2013 Bluedrop acquired Atlantis as noted above. The 2015 Bluedrop Training and Simulation gross profit percentage reflects late 2014 cost reductions within the billable base of employees to align the new combined operations with the current backlog and contracts in place or in final stages of completion.

The Bluedrop Learning Networks business unit gross profit for the nine months ended June 30, 2015 was $1,180,863 as compared to $1,760,625 for the same period in 2014, resulting in a gross margin of 45% versus 61% for the same period in 2014. The decrease in gross profit percentage was a direct result of the decreased custom courseware revenues noted above.

Sales and marketing

For the three months ended June 30, 2015 sales and marketing expenses were $522,011, an increase of $31,070 (6%) over the same quarter in the prior period. For the nine months ended June 30, 2015 sales and marketing expenses were $1,416,620, a decrease of $582,260 (29%) as compared to the same period in 2014.

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

General and administration

For the three months ended June 30, 2015 general and administration expenses were $1,343,415, an increase of $96,368 (8%) over the same quarter in the prior period. For the nine months ended June 30, 2015 general and administration expenses were $3,450,453, a decrease of $7,052 (0%) as compared to the same period in 2014.

As noted above, Bluedrop acquired the Atlantis operations in December 2013. Throughout the 2014 fiscal year, Bluedrop carried out integration activities and implemented cost reduction strategies. This resulted in significant cost savings as a result of combined operation synergies. As the company progressed through the second and third quarter, these cost saving were used to fund increased expenditure in certain administration functions to facilitate strategic growth.

Government assistance

For the three months ended June 30, 2015 government assistance included in income resulted in an expense $145,686, a decrease of $482,042 (143%) over the same quarter in the prior period. For the nine months ended June 30, 2015 government assistance included in income was $304,393, a decrease of $682,514 (69%) as compared to the same period in 2014.

During the nine months ended June 30, 2015, funding related to the Atlantic Canada Opportunities Agency - Atlantic Innovation Fund decreased by $380,643 compared to the same period in 2014. In addition, the Company reassessed the eligibility of prior tax year activities relating to the Scientific Research and Experimental Development(SR&ED) tax credit program and has recorded a provision against prior year tax credits recognized of $703,773, resulting in an negative impact on income of $333,475.

Share-based compensation

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

The Company recorded $166,194 as share-based compensation expense for the nine months ended June 30, 2015 and $207,397 for the same period in 2014. The Company granted 1,617,343 of additional options during the nine months ended June 30, 2015.

The Company has an employee share purchase plan which permits employees to subscribe to common shares of the Company through payroll deductions. The Company may provide financial assistance with respect to the plan by way of loan, guarantee or otherwise. The Company has reserved a maximum of 2,969,597 common shares under the employee share purchase plan. As at June 30, 2015 no shares were outstanding under the plan.

Finance costs

For the three months ended June 30, 2015 finance costs were $427,395, an increase of $43,591 (11%) over the same quarter in the prior period. For the nine months ended June 30, 2015 finance costs were $1,266,887, an increase of $387,447 (44%) as compared to the same period in 2014.

The increase in the nine months ended June 30, 2015 is a primarily a result of a $371,035 increase in interest and accretion on long term debt as a result of additional borrowings in the period used to fund the acquisition of Atlantis and required working capital. During the year ended September 30, 2014, advances of long term debt were $5,199,537. During the first nine months of fiscal 2015 the Company received long term debt advances of $1,225,000.

Depreciation and amortization

For the three months ended June 30, 2015 depreciation and amortization expense was $226,882, an increase of $297 (0%) over the same quarter in the prior year. For the nine months ended June 30, 2015 depreciation and amortization expense was $668,137, an increase of $48,141 (8%) as compared to the same period in 2014.

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

The Company invested $825,072 in capital assets and intangible assets during the nine months ended June 30, 2015. The government assistance impact on intangible assets was a net increase of $84,866, primarily due to the adjustment in capitalized Scientific Research and Experimental Development from prior taxation years noted above.

Other gains and losses

During the nine months ended June 30, 2015, the Company recorded other gains of $428,177.

On December 30, 2014 the Company entered into an early discounted settlement agreement to repay the secured convertible term note acquired in the acquisition of Atlantis. Under the agreement the Company paid $1,125,000 on settlement of the debt. As at the settlement date the principal and accrued interest payable was $1,595,422, resulting in a gain on settlement of $470,422. During the fiscal 2015, the Company disposed of certain property and equipment resulting in a loss on disposal of $42,245.

Income taxes

For the nine months ended June 30, 2015 income tax expense was $131,684 as compared to a recovery of $907,912 in the same period in the prior year. The difference in the income tax expense (recovery) is a result of tax assets recorded in the prior period associated with losses in that fiscal period.

Bluedrop PERFORMANCE LEARNING

QUARTERLY INFORMATION

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

(Canadian dollars in thousands)

Fiscal year	**2015**	**2015**	**2015**	**2014**	**2014**	**2014**	**2014**	**2013**
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30
Revenue								
Bluedrop Training and Simulation	$ 4,416	$ 4,507	$ 3,509	$ 3,672	$ 3,653	$ 3,589	$ 926	$ 2,058
Bluedrop Learning Networks	$ 937	$ 835	$ 840	$ 689	$ 864	$ 889	$ 1,111	$ 898
	5,353	5,342	4,349	4,361	4,517	4,478	2,037	2,956
Direct costs	3,093	3,188	2,715	2,532	2,831	2,790	1,286	1,514
Gross profit	2,260	2,154	1,634	1,829	1,686	1,688	751	1,442
Gross profit percentage	42%	40%	38%	42%	37%	38%	37%	49%
Expenses								
Sales and marketing	522	469	426	515	491	764	744	730
General and administration	1,343	1,171	936	1,244	1,247	1,265	945	882
Acquisition and restructuring costs	-	-	-	223	12	211	1,666	-
Government assistance	146	(253)	(197)	(260)	(336)	(422)	(229)	183
Share-based compensation	26	69	70	14	80	54	73	75
Finance costs	427	429	411	306	384	378	118	118
Depreciation and amortization	227	220	221	349	227	217	177	209
Other gains and losses	-	43	(472)	113	(212)	-	6	539
	2,691	2,148	1,395	2,504	1,893	2,467	3,500	2,736
Earnings (loss) before income taxes	(431)	6	239	(675)	(207)	(779)	(2,749)	(1,294)
Income taxes (recovery)	-	(5)	136	421	(23)	(216)	(668)	(418)
Net earnings (loss)	$ (431)	$ 11	$ 103	$ (1,096)	$ (184)	$ (563)	$ (2,081)	$ (876)

Fiscal 2015

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

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

In the third quarter of fiscal 2015, the Company continued to recognize higher revenues and gross margins and increased strategic spending in general and administration functions. The Company recorded an expense in government assistance related to a loss provision for SR&ED credit related to prior tax years.

Fiscal 2014

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

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

Fiscal 2013

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

LIQUIDITY AND CAPITAL RESOURCES

For the nine months ended June 30, 2015 the Company generated cash and cash equivalents of $602,660 (2014 – $332,589).

Operating activities

For the nine months ended June 30, 2015 the Company's generated cash from operating activities of $2,072,499 compared to cash used of $1,840,500 for the same period in the prior year.

Changes in non-cash working capital related to operating activities generated cash of $689,148 during 2015. Accounts receivable related to trade amounts decreased by $1,065,029 as a result of collection of receivables outstanding near year end. This was offset by an increase in work in progress of $271,502 due to differences in the timing of project execution and billing milestones.

Investing activities

For the nine months ended June 30, 2015 the Company consumed cash of $383,571 for investing activities compared to cash consumed of $871,569 for the same period in the prior year.

Investment in intangible assets for the period was $825,072 primarily related to the development of the Bluedrop360 training management and delivery platform. In addition, the Company invested $72,978 in property and equipment.

Changes in non-cash working capital related to investing activities resulted in an impact of $536,108 for the period ended June 30, 2015.

Financing activities

For the nine months ended June 30, 2015 the Company used $1,086,268 in cash in financing activities as compared to cash generated of $3,044,658 from financing activities for the same period in the prior year.

Financing activities for the nine months ended June 30, 2015 included $1,696,382 of repayments of long term debt, including the repayment of the remaining 8% secured convertible term note under an early discounted settlement agreement. This was offset by additional long term debt advances of $1,225,000.

Cash and credit availability

The Company has a short term bank operating line of credit to a maximum of the lesser of $3,500,000 and defined marginable accounts receivable minus specified liabilities. The revolving operating facility is repayable on demand and bears interest at Royal Bank prime plus 1.95%. The Company has provided a General Security Agreement as security for this indebtedness. At June 30, 2015 the Company has $570,000 drawn against its short term borrowing facilities.

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

CONTRACTUAL OBLIGATIONS

The following table contains a summary of the Company's contractual obligations and commitments to make future payments under contracts including debt, finance leases and operating leases at June 30, 2015:

Scheduled payments due by period (Canadian dollars in thousands)	**Long term debt**	**Capital leases**	**Operating leases**	**Total**
2015 (year ended September 30)	294	10	211	515
2016	2,158	32	758	2,948
2017	4,646	12	802	5,460
2018	583	-	802	1,385
2019	479	-	694	1,173
Thereafter	629	-	2,550	3,179
	$ 8,789	$ 54	$ 5,817	$ 14,660

PROVISIONS AND CONTINGENT LIABILITIES

To June 30, 2015 the Company had recognized ACOA-AIF contributions of $2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of $2,984,419 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and services resulting from the research funded. A continuity of the amount of the provision recognized is as follows:

	June 30 2015	**September 30 2014**
Opening balance	$ 1,188,864	1,186,545
Accretion	151,581	201,713
Royalties paid or payable	(71,891)	(27,771)
Additions and revaluations	11,037	(171,623)
	$ 1,279,591	1,188,864

SHARE INFORMATION

At June 30, 2015 the Company had issued 98,986,609 common shares and 14,668,987 share options that can be exercised when vested to obtain an equivalent number of common shares. During the nine months ended June 30, 2015, the Company granted 1,617,343 of additional options.

The Company has an employee share purchase plan which permits employees to subscribe to common shares of the Company through payroll deductions. The Company may provide financial assistance with respect to the plan by way of loan, guarantee or otherwise. The Company has reserved a maximum of 2,969,597 common shares under the employee share purchase plan. As at June 30, 2015 no shares were outstanding under the plan.

RELATED PARTY TRANSACTIONS

Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant related party transactions are reviewed and approved by the Audit Committee of the Board. The following is a summary of related party transactions during the three months ended June 30, 2015:

- The Company recorded rent expense of $65,520 for the three months ended June 30, 2015 (2014 - $65,520) for rental of premises from LB2P a company controlled by the Company's President & Chief Executive Officer. Effective October 1, 2011 the Company entered into a 6 year lease, with a 4 year renewal option, with LB2P for 100% of the premises available for lease at 18 Prescott Street, St. John's, NL. The lease includes an initial net lease rate for two years with escalation provisions periodically thereafter.
- The Company recognized an expense of $179,150 for the three months ended June 30, 2015 (2014 - $156,200) for fees, salaries and benefits to its key management personnel for services rendered. Key management is considered to be

members of the Board of Directors, the President & Chief Executive Officer and the Chief Financial Officer. The Executive Chairman's fees are paid to a corporation under his control.

- The Company recognized an expense of $9,568 for the three months ended June 30, 2015 (2014 – $47,512) for share based compensation to its key management personnel (as described above).
- During the second quarter of fiscal 2015, The Company received financing of $600,000 in the form of a 18 month unsecured term loan from an entity controlled by the Company's beneficial controlling shareholder. The term loan bears interest, payable monthly, at 16% per annum and is subordinated to existing senior credit and other term facilities. The terms of the loan provide that early repayment can be made by Bluedrop, without penalty, by providing 90 days notice. The Company recorded finance costs of $23,934 related to the loan during the three months ended June 30, 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 the Condensed Consolidated Interim Financial Statements. The Company has identified the following policies where critical judgments, estimates and assumptions are made and where actual results could be materially different.

Significant management judgements

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

(a) Revenue recognition

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

(b) Income taxes

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

The Company has recognized deferred tax assets in the Company's financial statements for the period ended June 30, 2015. Management considers that it is more likely than not that these tax assets will be realized. The ultimate realization of these assets is dependent upon the Company's ability to generate sufficient taxable income to offset the tax losses carried forward as well as the reversal of the differences between the carrying amount of items on the statement of financial position and their corresponding tax basis. If future circumstances indicate that it is no longer probable that these tax assets will be realized, the carrying value of the tax asset will be reduced, resulting in a charge against income and a reduction of equity.

(c) Government assistance

The Company receives government assistance pursuant to specific contractual funding agreements and is also eligible to receive cash tax credits under the Scientific Research and Experimental Development (SRED) and Digital Media Tax Credit (DMTC) programs. Claims relating to specific funding agreements are based on the defined eligible costs pursuant to the agreements. Contributions are recognized when the related expenditures are incurred and/or when significant milestones have been achieved in a funded project.

Credits under the SRED and DMTC programs are recorded when amounts can be reasonably estimated and receipt is reasonably assured. Government assistance may be overstated if the underlying project is determined to be ineligible or if certain costs claimed are determined to be ineligible.

(d) Development costs

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

Estimation uncertainty

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

(a) Fair value of provisions

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

(b) Fair value of financial liabilities

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

(c) Impairment of non-financial assets

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

(d) Revenue recognition

Revenue from services contracts is recognized on a percentage of completion basis, measured by the percentage of costs incurred to date to the estimated total costs for each contract. Changes to the estimate of percentage complete or estimated costs to complete could have a material impact on the carrying values of work in progress or deferred revenue and a material impact on future revenue.

(e) Share-based compensation

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

NON-GAAP FINANCIAL MEASURES

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

(a) Backlog

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

RISKS

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

Customer risk

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

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

Credit risk

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

The Company's maximum exposure to credit risk, with respect to accounts receivable and unbilled work in progress corresponds to the carrying value. At June 30, 2015 approximately 72% of trade receivables were due from five customers (September 30, 2014 – 34% from two customers). In accordance with contract terms, the Company bills certain customers in advance of the completion of work and records such billings as deferred revenue.

An allowance for doubtful accounts is established at each balance sheet date based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The allowance for doubtful trade accounts receivable at June 30, 2015 was $7,746 (September 30, 2014 - $62,857). At June 30, 2015 the Company's trade accounts receivable included amounts over 90 days old totaling $749,464 (September 30, 2014 – $145,272) which were not considered to be impaired and therefore not included in the allowance for doubtful accounts.

Recruitment and retention risks

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

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

OUTLOOK

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

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