Bluedrop Performance Learning Inc.

Consolidated Financial Statements

Year ended September 30, 2014

Contents

Independent auditor's report

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To the Shareholders of

Bluedrop Performance Learning Inc.

We have audited the accompanying consolidated financial statements of Bluedrop Performance Learning Inc., which comprise the consolidated statements of financial position as at September 30, 2014 and September 30, 2013, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bluedrop Performance Learning Inc. as at September 30, 2014 and September 30, 2013, and its financial performance and its cash flows for the years ended September 30, 2014 and September 30, 2013 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that during the year ended September 30, 2014 the Company incurred a net loss of $3,919,982 and used cash flow from operations of $3,410,676, and had a negative working capital position of $665,339 as at September 30, 2014. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Grant Thornton LLP

St. John's, Canada

January 28, 2015

Chartered accountants

Bluedrop Performance Learning Inc.

Consolidated Statements of Financial Position

In Canadian dollars

		September 30 2014	September 30 2013
ASSETS			
Current assets			
Cash and cash equivalents	$	4,055	229,813
Accounts receivable (Note 6)		6,994,565	3,127,292
Work in progress		971,338	493,572
Prepaid expenses		488,220	449,034
Due from related parties (Note 7)		51,818	139,791
		8,509,996	4,439,502
Due from related parties (Note 7)		119,589	50,227
Deferred tax assets (Note 8)		4,855,470	2,139,961
Goodwill and other intangible assets (Note 9)		5,284,924	2,984,132
Property and equipment (Note 10)		915,867	1,167,524
	$	19,685,846	10,781,346
LIABILITIES AND EQUITY			
Current liabilities			
Bank indebtedness (Note 11)	$	1,071,655	-
Accounts payable and accruals		2,791,522	1,754,576
Deferred revenue		2,855,758	1,616,965
Due to related parties (Note 7)		-	61,379
Current portion of obligations under finance leases (Note 12)		49,727	76,790
Current portion of long term debt (Note 13)		2,406,673	470,340
		9,175,335	3,980,050
Obligations under finance leases (Note 12)		42,219	35,568
Long term debt (Note 13)		6,091,860	2,065,173
Provisions (Note 14)		1,188,864	1,186,545
Deferred revenue		2,501,761	-
Deferred tax liabilities (Note 8)		641,118	-
Long term payables		28,167	-
		19,669,324	7,267,336
Equity			
Share capital (Note 15)		5,053,021	5,053,021
Reserves		1,322,350	899,856
Deficit		(6,358,849)	(2,438,867)
		16,522	3,514,010
	$	19,685,846	10,781,346

Approved on Behalf of the Board

Derrick H. Rowe
Director

Emad Rizkalla
Director

See notes to the financial statements

Bluedrop Performance Learning Inc.

Consolidated Statements of Comprehensive Loss

Year Ended September 30		2014	2013
In Canadian dollars			
Revenue			
Services revenue	$	12,865,891	10,068,417
Product sales		2,527,424	1,459,348
		15,393,315	11,527,765
Direct costs		9,317,343	6,135,810
Gross profit		6,075,972	5,391,955
Expenses			
Sales and marketing		2,513,577	2,767,270
General and administration		4,822,050	3,712,476
Acquisition and restructuring costs (Note 5)		2,112,203	-
Government assistance (Note 16)		(1,247,394)	(896,327)
Share-based compensation (Note 15)		221,028	363,181
Finance costs (Note 17)		1,185,148	381,662
Depreciation and amortization		969,429	825,093
Other gains and losses		(93,084)	539,016
		10,482,957	7,692,371
Loss before income taxes		(4,406,985)	(2,300,416)
Income tax recovery (Note 8)			
Current		(9,579)	5,891
Deferred		(477,424)	(582,697)
		(487,003)	(576,806)
Net loss and comprehensive loss	$	(3,919,982)	(1,723,610)
Net loss per share			
Basic		(0.0396)	(0.0174)
Diluted		(0.0396)	(0.0174)
Weighted average number of shares outstanding			
Basic		98,986,609	98,986,609
Diluted		98,986,609	98,986,609

See notes to the financial statements

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Year Ended September 30

In Canadian dollars

	Ordinary Common Shares		Share Capital	Share Option Reserve	Convertible Notes	Retained Earnings (Deficit)	Total
October 1, 2012	98,986,609	$	5,053,021	536,675	-	(715,257)	4,874,439
Share-based compensation	-		-	363,181	-	-	363,181
Loss and comprehensive loss	-		-	-	-	(1,723,610)	(1,723,610)
September 30, 2013	98,986,609	$	5,053,021	899,856	-	(2,438,867)	3,514,010
Share-based compensation	-		-	221,028	-	-	221,028
Issue of convertible note, net of tax (Note 13(a))	-		-	-	201,466	-	201,466
Loss and comprehensive loss	-		-	-	-	(3,919,982)	(3,919,982)
September 30, 2014	98,986,609	$	5,053,021	1,120,884	201,466	(6,358,849)	16,522

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Year Ended September 30		**2014**	**2013**
In Canadian dollars			
Increase (decrease) in cash and cash equivalents			
Operating activities			
Net loss for the period	$	(3,919,982)	(1,723,610)
Items not affecting cash:			
Share-based compensation		221,028	363,181
Depreciation and amortization		969,429	825,093
Non-cash government assistance		(276,412)	(183,215)
Additions and revaluation of provision		(121,960)	419,578
Finance costs		1,185,148	381,662
Deferred taxes		(477,424)	(582,697)
Loss on disposal or property and equipment		(150,223)	539,016
Interest paid		(45,847)	(85,653)
		(2,616,243)	(46,645)
Changes in non-cash working capital (Note 18)		(794,433)	174,545
		(3,410,676)	127,900
Investing activities			
Change in related party balances		(42,768)	91,177
Net cash flow on business combinations (Note 5)		(910,449)	-
Proceeds on disposal of property and equipment		305,528	-
Purchase of property and equipment, net of government assistance		(56,684)	89,327
Purchase of intangible assets, net of government assistance		(202,232)	(228,732)
		(906,605)	(48,228)
Changes in non-cash working capital (Note 18)		65,535	217,412
		(841,070)	169,184
Financing activities			
Decrease in operating loan		-	(266,000)
Repayment of obligations under finance leases		(87,885)	(123,630)
Advances of long term debt		5,199,537	752,712
Repayment of long term debt		(1,647,211)	(163,281)
Repayment of royalties		(27,771)	(51,082)
Decrease in long term payables		(76,833)	-
Interest paid		(405,504)	(78,074)
		2,954,333	70,645
(Decrease) increase in cash and cash equivalents		(1,297,413)	367,729
Cash and cash equivalents (bank indebtedness), beginning of period		229,813	(137,916)
(Bank indebtedness) cash and cash equivalents, end of period	$	(1,067,600)	229,813
(Bank indebtedness) cash and cash equivalents consists of:			
Cash on hand and in bank	$	4,055	229,813
Bank overdraft		(1,071,655)	-
	$	(1,067,600)	229,813

See notes to the financial statements

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, 2015.

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.

(a) Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

During the year ended September 30, 2014, the Company realized a net loss of $3,919,982 and used cash flow from operations of $3,410,676. As at September 30, 2014 the Company had a negative working capital position of $665,339 including a term debt of $1,556,178 maturing on June 30, 2015. These conditions create a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern.

A significant portion of the net loss and negative cash flow from operations for the period is a direct result of acquisition and restructuring costs of $2,112,203 associated with the business combination at December 31, 2013. These costs were of a one-time nature.

On December 30, 2014 the Company repaid the term debt noted above under an early discounted settlement agreement (Note 24(a)) resulting in a gain on settlement of $470,422. The company is presently in discussion with existing lenders to refinance all or a portion of the related term debt.

Management believes that it will have sufficient cash flow to meet its operating expenses, realize its assets and discharge its liabilities in the next twelve months. However, funding from new equity or additional term debt may be required to fund ongoing development of the Company's technology assets and undertake business development activities and to discharge existing obligations. Raising additional funding on a timely basis may be adversely impacted by uncertain market conditions and the availability of appropriate financing opportunities. The outcome of these initiatives cannot be predicted at this time.

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:

Licences	3-5 years
Technology	5 years
Customer relationships	7 years
Courseware and other	3 years

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

(c) Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Property and equipment is depreciated over the following estimated useful lives:

Computer equipment and software	3 - 5 years
Equipment - simulation equipment	10 years
Equipment - other	5 years
Furniture and fixtures	7 years
Vehicles	5 years
Leasehold improvements	10 years

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).

3. Significant accounting policies (continued)

(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.

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 amortized 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 and DMTC programs 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) Compound financial instruments (convertible notes)

Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder at a fixed conversion rate.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

3. Significant accounting policies (continued)

(m) 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.

(n) 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.

(o) 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.

3. Significant accounting policies (continued)

(p) Significant management judgement and estimation uncertainty

In the process of applying the Company'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:

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.

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 has recognized deferred tax assets. 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.

3. Significant accounting policies (continued)

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

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 as well as compound financial liabilities. 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.

In addition, certain royalty arrangements classified as financial liabilities are subject to significant estimates including the amount and timing of future cash flows and discount rates used in measurement of the fair value.

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 13 *Fair Value Measurement*
IFRS 13 defines fair value, sets out a framework for measuring fair value and introduces consistent requirements for disclosures on fair value measurements. The measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value, with limited exceptions. [January 1, 2013]

In Canadian dollars

4. New and future accounting standards (continued)

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 15 *Revenue from Contracts with Customers*
IFRS 15 presents new requirements for the recognition of revenue and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for multiple element arrangements and other complexities. IFRS 15 replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and several revenue-related interpretations. [January 1, 2017]

5. Business combinations

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. The remaining principal and accrued interest was 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. On December 30, 2014, the Company repaid the remaining secured convertible term note under an early discounted settlement agreement (Note 24(a)).

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

Acquisition related costs in the amount of $1,656,168 have been expensed during the year ended September 30, 2014. Costs include legal fees, advisory services and employee termination benefits associated with the acquisition. In addition the Company incurred $456,035 of costs associated with subsequent restructuring activities.

In Canadian dollars

6. Accounts receivable

		September 30 2014	September 30 2013
Trade	$	5,368,431	1,666,427
Government assistance		1,607,061	1,446,483
Other		19,073	14,382
	$	6,994,565	3,127,292

7. Related party transactions

(a) Due from (to) related parties

		September 30 2014	September 30 2013
LB2P Holdings Inc.	$	-	20,202
Shareholder loan		1,591	(61,379)
Share purchase loans		169,816	169,816
	$	171,407	128,639

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

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

Share purchase loans are due from certain employees and directors of the Company. 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 in full on or before maturity dates ranging from January 31, 2015 to June 27, 2017.

(b) Related party transactions

		2014	2013
Rent expense	$	262,080	241,920
Finance charges		-	29,798
Fees, salaries and benefits for key management personnel		724,442	593,635
Share based compensation for key management personnel		171,331	146,919
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.

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

In Canadian dollars

8. 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:

		2014	2013
Earnings (loss) before income tax	$	(4,406,985)	(2,300,416)
Statutory tax rate		28.6%	28.0%
Expected tax expense		(1,261,405)	(644,116)
Non-deductible share based compensation		61,888	101,691
Other non-deductible expenses		332,007	17,377
Changes in current and future tax rates		-	(57,649)
Effect of unrecognized deferred tax assets		329,064	-
Revision of prior year estimates		51,443	5,891
	$	(487,003)	(576,806)
Current tax expense			
Adjustment for prior years	$	(9,579)	5,891
Deferred tax expense			
Origination and reversal of temporary differences		(605,018)	(582,697)
Change in recognized deductible temporary differences		375,991	-
Recognition of previously unrecognized tax losses		(248,397)	-
	$	(487,003)	(576,806)
Deferred tax expense included directly in equity	$	78,348	-

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 2014	September 30 2013
Work in progress	$	(83,422)	(69,100)
Intangible assets		(833,897)	1,649
Property and equipment		153,102	78,278
Long term debt		101,221	(83,822)
Provisions		332,882	332,233
Deferred Revenue		582,119	-
Non-capital losses		3,962,347	1,880,723
Deferred tax assets (liabilities)	$	4,214,352	2,139,961

Deferred tax liabilities of $4,951,926 associated with investments in subsidiaries have not been recognized, as the Company controls the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future.

The deferred tax asset arising from non-capital loss included an amount of $1,735,111 related to the recognition of Atlantis non-capital losses acquired which are considered probable of being realized through future taxable profits. The deferred tax liabilities resulting from intangibles assets included an amount of $693,100 related to the recognition of intangible assets acquired as part of the acquisition (Note 5).

Deferred tax assets are recognised for tax losses and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the balances can be utilised. The following items have not been recognized as deferred tax assets as at September 30, 2014:

		September 30 2014	September 30 2013
Deductible temporary differences	$	375,991	-
Non-capital losses		5,310,463	-

In Canadian dollars

9. Goodwill and other intangible assets

	Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost						
October 1, 2012	$ 265,500	183,116	1,467,113	585,000	1,415,007	3,915,736
Additions	-	(2,346)	1,084,266	-	-	1,081,920
Government assistance	-	-	(593,431)	-	-	(593,431)
September 30, 2013	$ 265,500	180,770	1,957,948	585,000	1,415,007	4,404,225
Additions	-	-	863,998	-	-	863,998
Disposals	-	(118,955)	-	-	-	(118,955)
Government assistance	-	-	(711,429)	-	-	(711,429)
Business combination (Note 5)	-	-	-	2,320,000	438,124	2,758,124
September 30, 2014	$ 265,500	61,815	2,110,517	2,905,000	1,853,131	7,195,963
Accumulated amortization and impairment losses						
October 1, 2012	$ 84,554	61,559	155,301	55,714	-	357,128
Amortization	67,642	61,038	311,697	83,572	-	523,949
Impairment loss	86,679	13,695	438,642	-	-	539,016
September 30, 2013	$ 238,875	136,292	905,640	139,286	-	1,420,093
Amortization	26,625	29,739	281,227	257,571	-	595,162
Disposals	-	(104,216)	-	-	-	(104,216)
September 30, 2014	$ 265,500	61,815	1,186,867	396,857	-	1,911,039
Carrying values						
October 1, 2012	$ 180,946	121,557	1,311,812	529,286	1,415,007	3,558,608
September 30, 2013	$ 26,625	44,478	1,052,308	445,714	1,415,007	2,984,132
September 30, 2014	$ -	-	923,650	2,508,143	1,853,131	5,284,924

On May 27, 2014, the Company disposed of courseware assets in exchange for proceeds of $275,000(USD). The disposed assets and proceeds, net of costs to sell, have been included in Other gains and losses on the statement of comprehensive loss.

Included in Technology are $863,998 of internally generated additions for the year ended September 30, 2014.

(a) 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. At September 30, 2014 $1,415,007 of goodwill has been allocated to the Bluedrop Learning Networks operating segment and $438,124 has been allocated to the Bluedrop Training and Simulation operating segment.

The recoverable amount of the operating segments 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 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 each operating segment.

In Canadian dollars

10. Property and equipment

		Computer equipment and software	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost						
October 1, 2012	$	898,422	1,185,427	113,640	274,594	2,472,083
Additions		44,253	43,625	-	23,164	111,042
Additions subject to finance leases		37,511	-	-	-	37,511
Government assistance		-	(315,890)	-	-	(315,890)
September 30, 2013	$	980,186	913,162	113,640	297,758	2,304,746
Additions		171,027	7,819	-	(93,557)	85,289
Additions subject to finance lease		67,473	-	-	-	67,473
Disposals		(776,694)	(112,667)	(66,673)	-	(956,034)
Government assistance		(28,605)	-	-	-	(28,605)
Business combination (Note 5)		77,581	61,438	-	-	139,019
September 30, 2014	$	490,968	869,752	46,967	204,201	1,611,888
Accumulated depreciation						
October 1, 2012	$	571,914	135,634	68,369	60,161	836,078
Depreciation		129,433	121,012	13,581	37,118	301,144
September 30, 2013	$	701,347	256,646	81,950	97,279	1,137,222
Depreciation		208,317	109,806	14,689	41,455	374,267
Disposals		(676,212)	(88,090)	(51,166)	-	(815,468)
September 30, 2014	$	233,452	278,362	45,473	138,734	696,021
Carrying values						
October 1, 2012	$	326,508	1,049,793	45,271	214,433	1,636,005
September 30, 2013	$	278,839	656,516	31,690	200,479	1,167,524
September 30, 2014	$	257,516	591,390	1,494	65,467	915,867
Carrying values of assets subject to finance leases						
October 1, 2012	$	105,915	122,780	-	-	228,695
September 30, 2013	$	103,341	98,224	-	-	201,565
September 30, 2014	$	79,122	78,797	-	-	157,919

11. Operating loans

On December 17, 2013, the Company amended its existing 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. 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, 2014 was $1,005,000 (September 30, 2013 – $Nil).

12. Leases

Certain intangibles assets and property and equipment are held under finance lease arrangements. In addition, the Company has entered into operating lease arrangements for office occupancy and equipment. Operating lease expense for the year ended September 30, 2014 was $897,608 (2013 - $660,224). Future minimum lease payments (including interest) at September 30, 2014 are as follows:

		1 year	1-5 years	>5 years
Obligations under finance lease	$	52,722	43,741	-
Operating leases	$	877,110	3,121,064	2,550,403

In Canadian dollars

13. Long term debt

	Maturity	September 30 2014	September 30 2013
Secured term note - 4.4%	2010-2015	$ -	25,332
Secured term note - 1.9%	2009-2013	-	883
Unsecured convertible term note - 14%	2013-2016	2,777,125	-
Secured convertible term note - 8%	2013-2015	1,556,178	-
Unsecured royalty obligation	n/a	1,046,685	-
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	441,198	410,653
Atlantic Canada Opportunities Agency - non-interest bearing	2012-2017	258,265	328,569
Government of Nova Scotia - 5%	2013-2021	1,293,777	1,162,000
Atlantic Canada Opportunities Agency - non-interest bearing	2013-2018	308,763	368,580
Invest New Brunswick - non-interest bearing	2013-2014	71,014	239,496
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2019	313,834	-
Atlantic Canada Opportunities Agency - non-interest bearing	2015-2016	431,694	-
		8,498,533	2,535,513
less: current portion		(2,406,673)	(470,340)
Total long term debt		$ 6,091,860	2,065,173

During the year ended September 30, 2014, Bluedrop entered into the following long term debt arrangements:

(a) Unsecured convertible term note - 14%

On December 30, 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 30, 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. The Company recorded $201,466 in Reserves related to the equity component of the note.

(b) Secured convertible term note - 8%

In connection with the Acquisition of Atlantis (Note 5) on December 31, 2013, the Company 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. The note is secured under a General Security Agreement.

On December 30, 2014, the Company repaid the remaining secured convertible term note under an early discounted settlement agreement (Note 24(a)).

(c) Atlantic Canadian Opportunities Agency (ACOA) - Term Loan

During the year ended September 30, 2014, the Company received a $500,000 funding contribution under ACOA's Business Development Program to assist with national and international commercialization activities. The unsecured, non-interest bearing loan is repayable in 60 monthly instalments of $8,333 commencing on January 1, 2015.

(d) Unsecured royalty obligation

During the year ended September 30, 2014, the Company received $1,000,000 of financing in the form of a royalty arrangement. The agreement requires Bluedrop to pay a royalty of 1.0% of revenues in exchange for the principal provided. The Company has accounted for the arrangement in accordance with *IAS 39 Financial Instruments: Recognition and Measurement.*

In Canadian dollars

13. Long term debt (continued)

(e) Atlantic Canadian Opportunities Agency (ACOA) - Term Loan

During the year ended September 30, 2014, the Company received a $500,000 funding contribution under ACOA's Business Development Program to assist with national and international commercialization activities. The unsecured, non-interest bearing loan is repayable in five quarterly instalments of $100,000 commencing on January 1, 2015. Subsequent to the balance sheet date , the terms of the loan were amended resulting in repayment of the loan commencing on January 1, 2016 (Note 24(b)).

(f) Government of Nova Scotia - 5% Term Loan

During the year ended September 30, 2014, the Company received a final instalment of $199,537 in connection with a $1,700,000 term loan from the Government of Nova Scotia to assist with the establishment and operation of the Bluedrop Training and Simulation Centre. The loan bears interest at 5% per annum, interest only payable until June 1, 2013, at which time the loan was repayable in 108 monthly instalments commencing on October 1, 2013.

14. Provisions

To September 30, 2014 the Company had recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of $2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of $2,726,717 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 2014	September 30 2013
Opening balance	$	1,186,545	469,903
Accretion		201,713	65,786
Royalties paid or payable		(27,771)	(51,082)
Additions and revaluations		(171,623)	701,938
	$	1,188,864	1,186,545

15. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

	Number of Shares		Share capital
Issued and outstanding at October 1, 2012	98,986,609	$	5,053,021
Issued and outstanding at September 30, 2013	98,986,609		5,053,021
Issued and outstanding at September 30, 2014	98,986,609	$	5,053,021

In Canadian dollars

15. Share capital (continued)

(c) Share options (2010 Stock Option Plan)

	Number of options	Exercise price per share
Outstanding at October 1, 2012	1,143,364	$0.40
Expired	(905,989)	$0.40
Outstanding and exercisable at September 30, 2013 and September 30, 2014	237,375	$0.40

(d) Share options (2011 Stock Option Plan)	Number of options	Exercise price per share
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	$0.18
Granted	9,248,284	$0.13
Forfeitures	(1,559,264)	$0.20
Expired	(195,600)	$0.24
Outstanding at September 30, 2014	13,654,191	$0.18
Exercisable at September 30, 2014	3,665,414	$0.22

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. 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 $221,028 of share-based compensation expense in the year ended September 30, 2014 relating to the 2011 Stock Option Plan (September 30, 2013 - $363,181). 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, 2014:

Risk free interest rate	1.35%
Expected dividend yield	0%
Share price volatility	40%
Expected life	3.6 years
Average fair value of options granted	$0.0403

(e) Employee share purchase plan

The Company has a 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 September 30, 2014 no shares were outstanding under the plan.

In Canadian dollars

16. Government assistance

		2014	2013
ACOA-AIF contributions	$	857,600	1,155,416
less: additions and revaluation of ACOA-AIF provision		171,623	(701,938)
National Research Council - Industrial Research Assistance Program		111,835	148,139
Invest New Brunswick		83,147	314,021
Scientific Research and Experimental Development credits		306,296	249,496
Nova Scotia Digital Media Tax Credits		117,558	235,844
Nova Scotia Capital Investment Incentive		-	177,766
Discounts on below-market interest rate financial liabilities		276,412	321,339
	$	1,924,471	1,900,083

		2014	2013
Government assistance included in:			
Net earnings		1,247,394	896,327
Deferred revenue		(62,957)	94,435
Intangible assets		711,429	593,431
Property and equipment		28,605	315,890
	$	1,924,471	1,900,083

17. Finance costs

		2014	2013
Interest on long term debt	$	497,478	73,067
Interest on finance lease obligations		5,277	8,870
Short term interest and bank charges		38,411	48,101
Accretion of long term debt		548,338	148,286
Accretion of provisions		201,713	65,786
Revaluation of financial liabilities		(113,171)	-
Other financing costs		7,102	37,552
Total finance costs	$	1,185,148	381,662

18. Changes in non-cash working capital

		2014	2013
Accounts receivable	$	(1,640,564)	1,040,905
Work in progress		(395)	(3,371)
Income taxes recoverable		-	16,131
Prepaid expenses		(21,022)	(47,736)
Accounts payable and accruals		(945,201)	88,181
Deferred revenue		1,878,284	(702,153)
	$	(728,898)	391,957

		2014	2013
Changes in non-cash working capital related to:			
Operating activities		(794,433)	174,545
Investing activities		65,535	217,412
	$	(728,898)	391,957

19. 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).

As of September 30, 2014 the Company did not have financial instruments required to be recorded at fair value. The following table sets out the approximate fair values of financial instruments on the statement of financial position as at September 30, 2014, which are all recorded at amortized cost following initial recognition:

	September 30, 2014		**September 30, 2013**	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Cash and cash equivalents	4,055	4,055	229,813	229,813
Accounts receivable	6,994,565	6,994,565	3,127,292	3,127,292
Due from related parties	51,818	51,818	139,791	139,791
Bank indebtedness	1,071,655	1,071,655	-	-
Accounts payable and accruals	2,791,522	2,791,522	1,754,576	1,754,576
Due to related parties	-	-	61,379	61,379
Obligations under finance leases (including current portion)	91,946	91,946	112,358	112,358
Long term debt (including current portion)	8,498,533	8,285,293	2,535,513	2,535,513

The fair value of cash and cash equivalents, accounts receivable, due from (to) related parties, bank indebtedness and accounts payable and accruals approximates their carrying values due to their short-term maturity.

The fair value of the long-term debt is estimated using interest rates that reflect market assessments of the performance risk which includes credit risk of Company at September 30, 2014.

(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 at 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.

In Canadian dollars

19. Financial instruments (continued)

(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. Two customers accounted for 32% of revenue (September 30, 2013 – One customer - 36%) and two customers accounted for 34% of the Company's trade receivables at September 30, 2014 (September 30, 2013 – One customer - 58%).

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, 2014 was $62,857 (September 30, 2013 - Nil). At September 30, 2014 the Company's trade accounts receivable included amounts over 90 days old totaling $145,272 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (September 30, 2013 - $256,434).

(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		2,791,522	-	-
Obligations under finance leases		52,722	43,741	-
Long term debt		3,034,006	6,148,938	629,121
	$	5,878,250	6,192,679	629,121

20. 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.

21. 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:

		2014	2013
Salaries and employee benefits	$	12,103,233	8,513,748
Materials, services and supplies		1,948,551	1,927,140
Travel and living		518,078	501,533
Occupancy		922,174	664,236
Professional fees		650,495	444,735
Other costs		510,439	564,164
Total expenses classified by nature	$	16,652,970	12,615,556

In Canadian dollars

22. Segment reporting

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

The Bluedrop Learning Networks (formerly 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 Bluedrop Training and Simulation (formerly 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:

		2014			
		Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	$	3,553,973	11,839,342	-	15,393,315
Direct costs		1,368,815	7,948,528	-	9,317,343
Gross profit		2,185,158	3,890,814	-	6,075,972
Expenses					
Sales and marketing		1,610,550	885,349	17,678	2,513,577
General and administration		869,518	1,138,198	2,814,334	4,822,050
Acquisition and restructuring costs		186,000	70,417	1,855,786	2,112,203
Government assistance		(612,271)	(246,876)	(388,247)	(1,247,394)
Share-based compensation		29,082	(14,890)	206,836	221,028
Finance costs		-	-	1,185,148	1,185,148
Depreciation and amortization		505,436	371,961	92,032	969,429
Other gains and losses		(182,725)	83,729	5,912	(93,084)
		2,405,590	2,287,888	5,789,479	10,482,957
(Loss) earnings before income taxes	$	(220,432)	1,602,926	(5,789,479)	(4,406,985)

		2013			
		Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	$	3,556,950	7,970,815	-	11,527,765
Direct costs		1,478,978	4,656,832	-	6,135,810
Gross profit		2,077,972	3,313,983	-	5,391,955
Expenses					
Sales and marketing		1,661,086	1,066,719	39,465	2,767,270
General and administration		867,681	676,515	2,168,280	3,712,476
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	2,710,504	7,692,371
(Loss) earnings before income taxes	$	(1,135,284)	1,545,372	(2,710,504)	(2,300,416)

23. Comparative figures

Comparative figures have been reclassified to conform with the September 30, 2014 statement of comprehensive loss presentation. Presentation changes include reclassification of certain labour costs previously classified as general and administration to direct costs and reclassification of capitalized computer software costs from intangible assets to property and equipment.

24. Subsequent events

(a) Early discounted debt repayment - Secured convertible term note - 8%

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 accrued principal and interest payable was $1,595,422, resulting in a gain on settlement of $470,422.

(b) Modification of term loan repayment terms

On January 5, 2015, the Company entered into an agreement to amend the repayment terms of the ACOA term loan (Note 13(e)) Under the amended arrangement the loan is repayable in five quarterly instalments of $100,000 commencing on January 1, 2016.