Bluedrop
PERFORMANCE LEARNING

Management's Discussion and Analysis of Results of Operations and Financial Condition
For the Year Ended September 30, 2014

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 year ended September 30, 2014 and should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto for the year ended September 30, 2014. 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 January 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 January 28, 2015 and are subject to change after such date.

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.

COMPANY OVERVIEW

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

The Bluedrop Learning Networks business (formerly CoursePark Learning Services) 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 the sale of commercial off-the-shelf courses.

The Bluedrop Training and Simulation business (formerly Defence & Aerospace) 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.

SELECTED ANNUAL INFORMATION

(Canadian dollars in thousands)		Year Ended September 30th		
Fiscal year		**2014**	**2013**	**2012**
Total revenue	$	15,393	11,528	10,119
Net loss		(3,920)	(1,723)	(19)
Per share - basic[1]		(0.0396)	(0.0174)	(0.0002)
Per share - diluted[1]		(0.0396)	(0.0174)	(0.0002)
Total assets		19,685	10,781	12,062
Total long term financial liabilities		6,162	2,101	2,005

Note 1: Per share amounts in Canadian dollars

On December 31, 2013 the Company acquired all the issued and outstanding common shares of Atlantis Systems Corp. Amounts noted above reflect the combined results of the business combination for the nine months ended September 30, 2014.

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. 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.

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.

RESULTS OF OPERATIONS

The following tables and discussion compare Bluedrop's operating results for the quarter and year ended September 30, 2014 to the same period ended September 30, 2013.

	Three months ended September 30		Change (2014 vs. 2013)	
(Canadian dollars in thousands)	**2014**	**2013**	**$**	**%**
Revenue				
Services revenue	3,595	2,566	1,029	40%
Product sales	766	390	376	96%
	4,361	2,956	1,405	48%
Direct costs	2,520	1,514	1,006	66%
Gross profit	1,841	1,442	399	28%
Gross profit percentage	42%	49%		
Expenses				
Sales and marketing	515	730	(215)	-29%
General and administration	1,256	882	374	42%
Acquisition and restructuring costs	223	-	223	100%
Government assistance	(260)	183	(443)	-242%
Share-based compensation	14	75	(61)	-81%
Finance costs	306	118	188	159%
Depreciation and amortization	349	209	140	67%
Other gains and losses	113	539	(426)	-79%
	2,516	2,736	(220)	-8%
Earnings (loss) before income taxes	(675)	(1,294)	619	-48%
Income taxes	421	(418)	839	-201%
Net Earnings (loss)	(1,096)	(876)	(220)	25%

	Year ended September 30		Change (2014 vs. 2013)	
(Canadian dollars in thousands)	**2014**	**2013**	**$**	**%**
Revenue				
Services revenue	12,866	10,069	2,797	28%
Product sales	2,527	1,459	1,068	73%
	15,393	11,528	3,865	34%
Direct costs	9,317	6,136	3,181	52%
Gross profit	6,076	5,392	684	13%
Gross profit percentage	39%	47%		
Expenses				
Sales and marketing	2,514	2,767	(253)	-9%
General and administration	4,822	3,712	1,110	30%
Acquisition and restructuring costs	2,112	-	2,112	100%
Government assistance	(1,247)	(896)	(351)	39%
Share-based compensation	221	363	(142)	-39%
Finance costs	1,185	382	803	210%
Depreciation and amortization	969	825	144	17%
Other gains and losses	(93)	539	(632)	-117%
	10,483	7,692	2,791	36%
Loss before income taxes	(4,407)	(2,300)	(2,107)	92%
Income taxes	(487)	(577)	90	-16%
Net loss	(3,920)	(1,723)	(2,197)	128%

Revenue

For the quarter ended September 30, 2014 revenues were $4,360,969, an increase of $1,404,354 (47%) as compared to the same period in 2013. For the year ended September 30, 2014 revenues were $15,393,315, an increase of $3,865,550 (34%) as compared to the same period in 2013.

The following tables illustrate the change in revenues from each identified operating segment for the quarter and year ended September 30, 2014.

	Quarter ended September 30				Change (2014 vs. 2013)	
	2014	% of total	2013	% of total	$	%
Revenue						
Bluedrop Training and Simulation	3,672	84%	2,058	70%	1,614	78%
Bluedrop Learning Networks	689	16%	898	30%	(209)	-23%
	4,361	100%	2,956	100%	1,405	48%

	Year ended September 30				Change (2014 vs. 2013)	
	2014	% of total	2013	% of total	$	%
Revenue						
Bluedrop Training and Simulation	11,839	77%	7,971	69%	3,868	49%
Bluedrop Learning Networks	3,554	23%	3,557	31%	(3)	0%
	15,393	100%	11,528	100%	3,865	34%

On December 31, 2013 the Company acquired Atlantis. The results of the Atlantis operations have been included in the Bluedrop Training and Simulation results in the last three quarters of fiscal 2014.

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 quarter ended September 30, 2014 total direct costs were $2,519,798, an increase of $1,005,458 (66%) over the same quarter in the prior fiscal year. For the year ended September 30, 2014 total direct costs were $9,317,343, an increase of $3,181,533 (52%) over the same period in the prior fiscal year.

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

Gross profit

For the quarter ended September 30, 2014 gross profit was $1,841,171, an increase of $398,896 (28%) over the same quarter in the prior period. The reported gross profit percentage for the quarter ended September 30, 2014 was 42% as compared to 49% for the same period in the prior year.

For the year ended September 30, 2014 gross profit was $6,075,972, an increase of $684,017 (13%) over the prior period. The reported gross profit percentage for the year ended September 30, 2014 was 39% as compared to 47% for the same period in the prior year.

The Bluedrop Training and Simulation business unit gross profit for the year ended September 30, 2014 was $3,890,814 versus $3,313,983 for the same period in 2013. The gross profit percentage was 33% for the current period versus 42% for the prior period. The significant decrease in Bluedrop Training and Simulation gross profit percentage was primarily a result of delays in executing several professional service contracts which were anticipated to begin in the first quarter. During the first three quarters of fiscal 2014, the Bluedrop Training and Simulation business unit experienced less billable hours and utilization than expected. In the final quarter of fiscal 2014, the Company implemented cost reductions within the billable base of employees to align the new combined operation with the current backlog and contracts in place or in final stages of completion.

The Bluedrop Learning Networks business unit gross profit for the year ended September 30, 2014 was $2,185,158 as compared to $2,077,972 for the same period in 2013, resulting in a gross margin of 61% versus 58% for the same period in 2013.

Sales and marketing

For the quarter ended September 30, 2014 sales and marketing expenses were $514,697, a decrease of $215,766 (30%) over the same quarter in the prior period. For the year ended September 30, 2014 sales and marketing expenses were $2,513,577, a decrease of $253,693 (9%) over the same period in the prior fiscal year.

The decrease in sales and marketing is a result of the re-allocation of resources as a result of restructuring activities in the year. In addition, certain costs incurred in prior quarters were determined to be capital in nature and were adjusted during the third quarter of 2014.

General and administration

For the quarter ended September 30, 2014 general and administration expenses were $1,255,580, an increase of $373,499 (42%) over the same quarter in the prior period. For the year ended September 30, 2014 general and administration expenses were $4,822,050, an increase of $1,109,574 (30%) over the same period in the prior fiscal year.

The overall increase was due to increased administrative costs associated with growth of the business. In addition, the acquisition of Atlantis resulted in increased general and administration costs in the past three quarters ended September 30, 2014.

Acquisition and restructuring costs

On December 31, 2013 the Company, under a Plan of Arrangement, acquired all the issued and outstanding common shares of Atlantis Systems Corp.

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.

Government assistance

For the quarter ended September 30, 2014 government assistance included in income was of $260,487, an increase of $443,402 (242%) over the same quarter in the prior period. For the year ended September 30, 2014 government assistance included in income was of $1,247,394, an increase of $351,067 (39%) over the same period in the prior fiscal year.

During the year ended September 30, 2014, funding related to the Nova Scotia Digital Media Tax Credit program decreased by $136,132 over the same period in 2013. During the first quarter of the prior fiscal period, the Company recognized $122,585 of credits related to the year ended September 30, 2012. In addition, the fourth quarter of fiscal 2013 included a revaluation of the ACOA-AIF provision which resulted in a $419,578 decrease in government assistance in the quarter.

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 $13,631 as share-based compensation expense for the quarter ended September 30, 2014 (2013 - $75,092) and $221,028 for the year ended September 30, 2014 (2013 - $363,181) and recorded a corresponding increase in the share option reserve. During the year ended September 30, 2014, the Company granted 9,248,284 options to certain directors, officers and employees of the Company.

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 September 30, 2014 no shares were outstanding under the plan.

Finance costs

For the quarter ended September 30, 2014 finance costs were $305,708, an increase of $187,759 (159%) over the same quarter in the prior period. For the year ended September 30, 2014 finance costs were $1,185,148, an increase of $803,486 (211%) over the same period in the prior fiscal year.

The increase in the year ended September 30, 2014 is a primarily a result of a $824,463 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 period, advances of long term debt were $5,199,537.

Depreciation and amortization

For the quarter ended September 30, 2014 depreciation and amortization expense was $349,433, an increase of $140,803 (67%) over the same quarter in the prior year. For the year ended September 30, 2014 depreciation and amortization expense was $969,429, an increase of $144,336 (17%) over the same period in the prior fiscal year.

The increase in depreciation and amortization expense is mainly related to increased investments in deferred development costs.

The Company invested $1,016,760 in capital assets and intangible assets during the year ended September 30, 2014. The additions were offset by government assistance totaling $740,034 towards the cost of these assets. In addition, the Company added $2,459,019 of capital assets and intangible assets (excluding goodwill) as a result of the acquisition of Atlantis.

Other gains and losses

During the year ended September 30, 2014, the Company recorded other gains of $93,084. The Company disposed of courseware assets in exchange for $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.

In addition the company recorded a loss on disposal of $113,145 on retirement of obsolete Property and Equipment.

Income taxes

For the quarter ended September 30, 2014 income tax expense was $420,909 as compared to a recovery of $418,057 in the same quarter in the prior year. For the year ended September 30, 2014 income tax recovery was $487,003 as compared to a recovery of $576,806 in the same period in the prior year.

The income tax recovery is related to the loss incurred in 2014 and changes to deferred tax assets and liabilities throughout 2014.

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	**2014**	**2014**	**2014**	**2014**	**2013**	**2013**	**2013**	**2013**
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31
Revenue								
Bluedrop Training and Simulation	$ 3,672	$ 3,653	$ 3,589	$ 926	$ 2,058	$ 2,095	$ 2,117	$ 1,701
Bluedrop Learning Networks	$ 689	$ 864	$ 889	$ 1,111	$ 898	$ 1,155	$ 674	$ 830
	4,361	4,517	4,478	2,037	2,956	3,250	2,791	2,531
Direct costs	2,520	2,788	2,756	1,253	1,514	1,516	1,666	1,439
Gross profit	1,841	1,729	1,722	784	1,442	1,734	1,125	1,092
Gross profit percentage	42%	38%	38%	38%	49%	53%	40%	43%
Expenses								
Sales and marketing	515	491	764	744	730	741	689	606
General and administration	1,256	1,290	1,293	984	882	1,069	969	792
Acquisition and restructuring costs	223	12	211	1,666	-	-	-	-
Government assistance	(260)	(336)	(422)	(229)	183	(307)	(346)	(426)
Share-based compensation	14	80	54	73	75	6	131	151
Finance costs	306	384	378	118	118	89	87	87
Depreciation and amortization	349	227	217	177	209	206	206	204
Other gains and losses	113	(212)	6	-	539	-	-	-
	2,516	1,936	2,501	3,533	2,736	1,804	1,736	1,414
Earnings (loss) before income taxes	(675)	(207)	(779)	(2,749)	(1,294)	(70)	(611)	(322)
Income taxes (recovery)	421	(23)	(216)	(668)	(418)	(16)	(127)	(16)
Net earnings (loss)	$ (1,096)	$ (184)	$ (563)	$ (2,081)	$ (876)	$ (54)	$ (484)	$ (306)

Fiscal 2014

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

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

Fiscal 2013

During the first quarter of fiscal 2013, the Bluedrop Training and Simulation business experienced decreased revenues and gross profit as a result of delays in executing various follow on deliverables associated with a single contract that was put in a temporary hiatus status. The Company took steps to deploy the affected employees in the second quarter but not without some delays which resulted in less billable hours and utilization than expected. Bluedrop Learning Networks continued growth in both of its CoursePark™ licensing sales and courseware development functions.

Costs associated with sales and marketing and general and administration costs continued to rise throughout 2013 as a result of continued investment in the business. In 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 year ended September 30, 2014 the Company used cash and cash equivalents of $1,297,413 (2013 – generated $367,729).

Operating activities

For the year ended September 30, 2014 the Company's used cash from operating activities of $3,410,676 compared to cash generated of $127,900 for the same period in the prior year.

Non-cash working capital related to operating activities increased by $794,433 during 2014. Accounts receivable related to operating activities increased by $1,706,099 primarily as a result of higher sales near the end of fiscal 2014. Accounts payable decreased by $945,201 primarily as a result of settlement expenditures related to the acquisition of Atlantis. Deferred revenue increased by $1,878,284 as a result of increased license sales near the end of fiscal 2014.

Investing activities

For the year ended September 30, 2014 the Company consumed cash of $841,071 for investing activities compared to cash generated of $169,184 for the same period in the prior year. The net cash outflow as a result of the acquisition of Atlantis was $910,449.

During the year ended September 30, 2014, the Company disposed of courseware assets in exchange for proceeds of $275,000USD.

Investment in intangible assets for the period was $202,232 primarily related to the development of *CoursePark*™. In addition, the Company invested $56,684 in property and equipment.

Changes in non-cash working capital for the period included a $65,534 decrease in government assistance receivables related to investing activities.

Financing activities

For the year ended September 30, 2014 the Company generated $2,954,333 in cash from financing activities as compared to $70,645 for financing activities for the same period in the prior year.

Financing activities for the year ended September 30, 2014 included a $5,199,537 of advances of long term debt, offset by repayments of $1,647,211 against long term debt, and $405,504 of interest paid. Subsequent to the balance sheet date the Company repaid the remaining secured convertible term note under an early discounted settlement agreement on December 30, 2014.

Cash and credit availability

At September 30, 2014 the Company had $1,005,000 drawn against its short term borrowing facilities.

On April 26, 2012, the Company executed a Credit Facilities Agreement with Royal Bank of Canada increasing its short-term bank operating line of credit to a maximum of the lesser of $2,000,000 and defined marginable accounts receivable minus specified liabilities. In addition the Company has a VISA travel and expense credit facility of $200,000 and a lease facility of $250,000 to support future investment in capital assets.

On December 17, 2013, the Company amended the above 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.

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 September 30, 2014:

Scheduled payments due by period (Canadian dollars in thousands)	**Long term debt**	**Capital leases**	**Operating leases**	**Total**
2015 (year ended September 30)	3,034	53	877	3,964
2016	1,287	32	824	2,143
2017	3,799	12	802	4,613
2018	583	-	802	1,385
2019	479	-	694	1,173
Thereafter	629	-	2,550	3,179
	$ 9,811	$ 97	$ 6,549	$ 16,457

PROVISIONS AND CONTINGENT LIABILITIES

To September 30, 2014 the Company had recognized 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

SHARE INFORMATION

At September 30, 2014 the Company had issued 98,986,609 common shares and 13,891,566 share options that can be exercised when vested to obtain an equivalent number of common shares. During the year ended September 30, 2014, the Company granted 9,248,284 share options to certain directors, officers and employees of the Company.

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 September 30, 2014 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 year ended September 30, 2014:

- The Company recorded rent expense of $262,080 for the year ended September 30, 2014 (2013 - $241,920) 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 $724,442 for the year ended September 30, 2014 (2013 - $593,635) 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 $171,331 for the year ended September 30, 2014 (2013 – $146,919) for share based compensation to its key management personnel (as described above).

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 September 30, 2014. 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.

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 September 30, 2014 approximately 34% of trade receivables were due from two customers (September 30, 2013 – 58% from one customer). In accordance with contract terms, the Company bills certain customers in advance of the completion of work and records such billings as deferred revenue.

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 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 (September 30, 2013 – $256,434) 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 2013 and 2014 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 custom courseware development and training 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. It has also strengthened the Company's market position in this segment. 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 and 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 addressing significant challenges facing our customers with the aim to improve their efficiency and reduce their per person costs of training management, tracking and delivery. Also during fiscal 2014 the Company completed the transition towards a Software as a Service business model with the aim of increasing recurring fees going forward.