Management's Discussion and Analysis of Results of Operations and Financial Condition
For the Year Ended September 30, 2013

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") of Bluedrop Performance Learning Inc. ("Bluedrop" or "the Company") provides the reader with a view and analysis, from the perspective of management, of Bluedrop's financial results for the year ended September 30, 2013 and should be read in conjunction with the Company's Condensed Interim Financial Statements and notes thereto for the year ended September 30, 2013. All financial information has been prepared in accordance with International Financial Reporting Standards, except as noted. All monetary amounts are stated in Canadian dollars. References to years are to the fiscal years ended September 30th unless otherwise noted. This MD&A has been prepared as of January 28, 2014.

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, 2014 and are subject to change after such date.

COMPANY OVERVIEW

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

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

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

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

RESTATEMENT

During the fiscal year ended September 30, 2013 the Company performed a detailed review of its accounting policies for revenue recognition including multiple-element arrangements. As a result of the review, management has determined that the Company's accounting for perpetual licenses under IFRS as presented in previously issued financial statements was not in accordance with generally accepted accounting principles. In previously reported financial statements such revenues were recognized immediately given an indefinite useful life. In the restated financial statements management has estimated a useful life based on factors specific to customer relationship periods within individual licencing arrangements. Revenue is recognized on a straight-line basis over the estimated useful life. The impact of the adjustment on net earnings (loss) and comprehensive income (loss) and on basic and diluted earnings (loss) per share for previously reported interim and annual periods during the last two fiscal years is as follows:

Statements of Comprehensive Income (Loss)
For the Year Ended September 30, 2013

(Canadian dollars in thousands)						
Fiscal year	**2013**					
	QE June 30		**QE March 31**		**QE Dec 31**	
	Restated	**Previous**	**Restated**	**Previous**	**Restated**	**Previous**
Revenue						
Defence & Aerospace	$ 2,095	$ 2,095	$ 2,117	$ 2,117	$ 1,701	$ 1,701
CoursePark Learning Services	$ 1,155	$ 980	$ 674	$ 1,090	$ 830	$ 692
	3,250	3,075	2,791	3,207	2,531	2,393
Direct costs	1,479	1,479	1,637	1,637	1,429	1,429
Gross profit	1,771	1,596	1,154	1,570	1,102	964
Gross profit percentage	54%	52%	41%	49%	44%	40%
Expenses						
Sales and marketing	741	741	689	689	606	606
General and administration	1,107	1,107	998	998	818	818
Government assistance	(307)	(307)	(346)	(346)	(442)	(442)
Share-based compensation	6	6	131	131	151	151
Finance costs	89	89	87	87	87	87
Depreciation and amortization	206	206	206	206	204	204
Impairment loss	-	-	-	-	-	-
	1,842	1,842	1,765	1,765	1,424	1,424
Earnings (loss) before income taxes	(71)	(246)	(611)	(195)	(322)	(460)
Income taxes (recovery)	(16)	(63)	(127)	(15)	(16)	(54)
Net earnings (loss)	$ (55)	$ (183)	$ (484)	$ (180)	$ (306)	$ (406)
Net earnings (loss) per share						
Basic	(0.0006)	(0.0019)	(0.0049)	(0.0018)	(0.0031)	(0.0041)
Diluted	(0.0006)	(0.0019)	(0.0049)	(0.0018)	(0.0031)	(0.0041)
Weighted average number of shares						
Basic (in thousands)	98,987	98,987	98,987	98,987	98,987	98,987
Diluted (in thousands)	98,987	98,987	98,987	98,987	98,987	98,987

The net effect of the year end accounting adjustments for revenue recognition on the Company's statement of comprehensive income (loss) for the nine months ended June 30, 2013 is a cumulative decrease of $75,162.

Bluedrop
PERFORMANCE LEARNING

Statements of Comprehensive Income (Loss)
For the Year Ended September 30, 2012

(Canadian dollars in thousands)	2012							
Fiscal year	**YE Sept 30**		**QE June 30**		**QE March 31**		**QE Dec 31**	
	Restated	**Previous**	**Restated**	**Previous**	**Restated**	**Previous**	**Restated**	**Previous**
Revenue								
Defence & Aerospace	$ 7,740	$ 7,740	$ 2,838	$ 2,838	$ 1,730	$ 1,730	$ 1,575	$ 1,575
CoursePark Learning Services	$ 2,379	$ 2,732	$ 563	$ 511	$ 702	$ 683	$ 446	$ 506
	10,119	10,472	3,401	3,349	2,432	2,413	2,021	2,081
Direct costs	5,101	5,101	1,689	1,689	1,319	1,319	1,069	1,069
Gross profit	5,018	5,371	1,712	1,660	1,113	1,094	952	1,012
Gross profit percentage	50%	51%	50%	50%	46%	45%	47%	49%
Expenses								
Sales and marketing	1,747	1,747	363	363	385	385	329	329
General and administration	3,261	3,261	783	783	924	924	772	772
Government assistance	(1,368)	(1,368)	(103)	(103)	(181)	(181)	(721)	(721)
Share-based compensation	502	502	114	114	184	184	-	-
Finance costs	210	210	55	55	51	51	26	26
Depreciation and amortization	569	569	171	171	140	140	83	83
Impairment loss	-	-	-	-	-	-	-	-
	4,921	4,921	1,383	1,383	1,503	1,503	489	489
Earnings (loss) before income taxes	97	450	329	277	(390)	(409)	463	523
Income taxes (recovery)	116	205	153	139	(92)	(97)	175	186
Net earnings (loss)	$ (19)	$ 245	$ 176	$ 138	$ (298)	$ (312)	$ 288	$ 337
Net earnings (loss) per share								
Basic	(0.0002)	0.0026	0.0018	0.0014	(0.0031)	(0.0033)	0.0035	0.0041
Diluted	(0.0002)	0.0026	0.0018	0.0014	(0.0031)	(0.0033)	0.0035	0.0041
Weighted average number of shares								
Basic (in thousands)	93,492	93,492	98,987	98,987	94,980	94,980	81,108	81,108
Diluted (in thousands)	93,492	93,515	98,987	98,987	94,980	94,980	81,108	81,108

The net effect of the year end accounting adjustments in 2013 for revenue recognition on the Company's statement of comprehensive income (loss) for the year ended September 30, 2012 is a cumulative decrease of $263,397.

The table below illustrates the impact of the restatement on the previously reported statement of financial position for the past two fiscal periods:

	As restated							
Fiscal year	**2013**	**2013**	**2013**	**2012**	**2012**	**2012**	**2012**	**2012**
	Q3	Q2	Q1	YE	Q3	Q2	Q1	Opening
(Canadian dollars in thousands)	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Oct-01
ASSETS								
Current assets								
Cash and cash equivalents	139	7	72	15	45	17	-	-
Accounts receivable	3,562	3,918	4,106	4,168	4,843	4,776	3,149	2,651
Work in progress	482	1,722	1,288	490	206	232	213	299
Other current assets	551	483	452	467	329	342	269	211
	4,734	6,130	5,918	5,140	5,423	5,367	3,631	3,161
Due from related parties	50	170	170	170	220	220	50	50
Deferred tax assets	1,716	1,700	1,574	1,557	1,458	1,611	18	71
Goodwill and other intangible assets	3,439	3,433	3,521	3,642	3,412	3,502	626	516
Property and equipment	1,140	1,329	1,370	1,553	1,258	653	636	508
	11,079	12,762	12,553	12,062	11,771	11,353	4,961	4,306
LIABILITIES AND EQUITY								
Current liabilities								
Bank indebtedness	-	1,494	1,436	419	610	1,457	1,084	412
Accounts payable and accruals	1,494	1,877	1,407	1,685	1,948	1,277	1,108	863
Deferred revenue	2,094	2,245	2,099	2,319	1,844	2,667	1,472	2,253
Other current liabilities	489	418	418	290	236	174	131	62
	4,077	6,034	5,360	4,713	4,638	5,575	3,795	3,590
Long term debt	2,162	1,833	1,907	1,904	1,683	664	501	51
Provisions	477	468	483	470	458	447	435	424
Other long term liabilities	48	63	83	101	135	101	117	416
	6,764	8,398	7,833	7,188	6,914	6,787	4,848	4,481
Equity								
Share capital	5,053	5,053	5,053	5,053	5,053	5,053	80	80
Share option reserve	825	819	688	537	332	218	440	440
Deficit	(1,563)	(1,508)	(1,021)	(716)	(528)	(705)	(407)	(695)
	4,315	4,364	4,720	4,874	4,857	4,566	113	(175)
	11,079	12,762	12,553	12,062	11,771	11,353	4,961	4,306

	As previously stated							
Fiscal year	**2013**	**2013**	**2013**	**2012**	**2012**	**2012**	**2012**	**2012**
	Q3	Q2	Q1	YE	Q3	Q2	Q1	Opening
(Canadian dollars in thousands)	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Oct-01
ASSETS								
Current assets								
Cash and cash equivalents	139	7	72	15	45	17	-	-
Accounts receivable	3,562	3,918	4,106	4,168	4,843	4,776	3,149	2,651
Work in progress	482	1,722	1,288	490	206	232	213	299
Other current assets	551	483	452	467	329	342	269	211
	4,734	6,130	5,918	5,140	5,423	5,367	3,631	3,161
Due from related parties	50	170	170	170	220	220	50	50
Deferred tax assets	1,516	1,453	1,438	1,385	1,384	1,526	-	-
Goodwill and other intangible assets	3,439	3,433	3,521	3,642	3,412	3,502	626	516
Property and equipment	1,140	1,329	1,370	1,553	1,258	653	636	508
	10,879	12,515	12,417	11,890	11,697	11,268	4,943	4,235
LIABILITIES AND EQUITY								
Current liabilities								
Bank indebtedness	-	1,494	1,436	419	610	1,457	1,084	412
Accounts payable and accruals	1,494	1,877	1,407	1,685	1,948	1,277	1,108	863
Deferred revenue	1,352	1,327	1,598	1,680	1,570	2,341	1,127	1,966
Other current liabilities	489	418	418	290	236	174	131	62
	3,335	5,116	4,859	4,074	4,364	5,249	3,450	3,303
Long term debt	2,162	1,833	1,907	1,904	1,683	664	501	51
Provisions	477	468	483	470	458	447	435	424
Other long term liabilities	48	63	83	101	135	104	193	428
	6,022	7,480	7,332	6,549	6,640	6,464	4,579	4,206
Equity								
Share capital	5,053	5,053	5,053	5,053	5,053	5,053	80	80
Share option reserve	825	819	688	537	332	218	440	440
Deficit	(1,021)	(837)	(656)	(249)	(328)	(467)	(156)	(491)
	4,857	5,035	5,085	5,341	5,057	4,804	364	29
	10,879	12,515	12,417	11,890	11,697	11,268	4,943	4,235

BUSINESS COMBINATION

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

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

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

SELECTED ANNUAL INFORMATION

(Canadian dollars in thousands)	Year Ended September 30th		
Fiscal year	**2013**	**2012**	**2011**
Total revenue	11,528	10,119	6,571
Net loss	(1,723)	(19)	(1,088)
Per share - basic[1]	(0.0174)	(0.0002)	(0.0134)
Per share - diluted[1]	(0.0174)	(0.0002)	(0.0134)
Total assets	10,781	12,062	4,306
Total long term financial liabilities	2,101	2,005	92

Note 1: Per share amounts in Canadian dollars

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

RESULTS OF OPERATIONS

The following tables and discussion compare Bluedrop's operating results for the quarter and year ended September 30, 2013 to the same periods ended September 30, 2012.

(Canadian dollars in thousands)	3 months ended September 30		Change (2013 vs. 2012)	
	2013	2012	$	%
Revenue				
Defence & Aerospace	2,058	1,597	461	29%
CoursePark Learning Services	898	667	231	35%
	2,956	2,264	692	31%
Direct costs	1,461	1,024	437	43%
Gross profit	1,495	1,240	255	21%
Gross profit percentage	51%	55%		
Expenses				
Sales and marketing	730	670	60	9%
General and administration	919	782	137	18%
Government assistance	199	(362)	561	-155%
Share-based compensation	75	204	(129)	-63%
Finance costs	118	78	40	51%
Depreciation and amortization	209	175	34	19%
Impairment loss	539	-	539	100%
	2,789	1,547	1,242	80%
Earnings (loss) before income taxes	(1,294)	(307)	(987)	321%
Income taxes	(418)	(120)	(298)	248%
Net Earnings (loss)	(876)	(187)	(689)	368%

(Canadian dollars in thousands)	year ended September 30		Change (2013 vs. 2012)	
	2013	2012	$	%
Revenue				
Defence & Aerospace	7,971	7,740	231	3%
CoursePark Learning Services	3,557	2,379	1,178	50%
	11,528	10,119	1,409	14%
Direct costs	6,006	5,101	905	18%
Gross profit	5,522	5,018	504	10%
Gross profit percentage	48%	50%		
Expenses				
Sales and marketing	2,767	1,747	1,020	58%
General and administration	3,842	3,261	581	18%
Government assistance	(896)	(1,368)	472	-35%
Share-based compensation	363	502	(139)	-28%
Finance costs	382	210	172	82%
Depreciation and amortization	825	569	256	45%
Impairment loss	539	-	539	100%
	7,822	4,921	2,901	59%
Earnings (loss) before income taxes	(2,300)	97	(2,397)	-2471%
Income taxes	(577)	116	(693)	-597%
Net Earnings (loss)	(1,723)	(19)	(1,704)	8968%

Revenue

For the quarter ended September 30, 2013 revenues were $2,956,615, an increase of $692,265 (31%) as compared to the same period in 2012. For the year ended September 30, 2013 revenues were $11,527,765, an increase of $1,409,233 (14%) over the same period in the prior year.

The following tables illustrate the growth and shift in revenues from each identified market channel for the year ended September 30, 2013.

	3 Months ended September 30				Change (2013 vs. 2012)	
	2013	**% of total**	**2012**	**% of total**	**$**	**%**
Revenue						
Defense & Aerospace	2,058	70%	1,597	71%	461	29%
CoursePark Learning Services	898	30%	667	29%	231	35%
	2,956	100%	2,264	100%	692	31%

	Year ended September 30				Change (2013 vs. 2012)	
	2013	**% of total**	**2012**	**% of total**	**$**	**%**
Revenue						
Defense & Aerospace	7,971	69%	7,740	76%	231	3%
CoursePark Learning Services	3,557	31%	2,379	24%	1,178	50%
	11,528	100%	10,119	100%	1,409	14%

Revenues in the CLS business were significantly higher in the quarter and year-to-date periods primarily as a result of growth in license sales of the *CoursePark™* platform as well as increased activity in courseware development projects.

The increase revenues in the D&A business are attributed to increased professional services revenues as a result of the business units continued growth in providing custom courseware development services to the military and aviation industries. This was substantially offset by a decrease in simulation product sales compared to the prior period.

Direct costs

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

For the quarter ended September 30, 2013 total direct costs were $1,460,987, an increase of $437,224 (43%) over the same quarter in the prior period. For the year ended September 30, 2013 direct costs were $6,006,171, an increase of $905,365 (18%) over the same period in the prior year.

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

Gross profit

For the quarter ended September 30, 2013 gross profit was $1,495,628, an increase of $255,041 (21%) over the same quarter in the prior period. The reported gross profit percentage for the quarter ended September 30, 2013 was 51% as compared to 55% for the same period in the prior year.

For the year ended September 30, 2013 gross profit was $5,521,594, an increase of $503,868 (10%) over the same period in 2012. The reported gross profit percentage for the year ended September 30, 2013 was 48% as compared to 50% for the same period in the prior year.

The D&A business unit gross profit for the year ended September 30, 2013 was $3,399,563 versus $3,657,782 for the same period in 2012. The gross profit percentage was 43% for the current period versus 47% for the prior period. The D&A decrease in gross profit was primarily a result of delays in executing various follow on deliverables associated with a single contract that was put in a temporary hiatus status. This caused the Company to reduce revenue recognition associated with the specific contract and also caused delays in delivery of the associated follow up deliverables. The Company took steps to deploy the affected employees in the period but not without some delays which resulted in less billable hours and utilization than expected in the period.

The CLS business unit gross profit for the year ended September 30, 2013 was $2,122,031 as compared to $1,359,944 for the same period in 2012, resulting in a gross margin of 60% versus 57% for the same period in 2012. The CLS increase in gross profit was as a result of growth in CoursePark™ licensing sales within the period and increased activity in courseware development projects.

Sales and marketing

For the quarter ended September 30, 2013 sales and marketing expenses were $730,463, an increase of $60,357 (9%) over the same quarter in the prior period. For the year ended September 30, 2013 sales and marketing expenses were $2,767,270, an increase of $1,020,485 (58%) over the same period in the prior year.

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

General and administration

For the quarter ended September 30, 2013 net general and administration expenses were $919,184, an increase of $137,440 (18%) over the same quarter in the prior period. For the year ended September 30, 2013 general and administration expenses were $3,842,115, an increase of $580,848 (18%) over the same period in the prior year.

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

Government assistance

For the quarter ended September 30, 2013 government assistance was a loss of $199,165, a decrease of $561,593 (155%) over the same quarter in the prior period. For the year ended September 30, 2013 government assistance was $896,327, a decrease of $471,382 (34%) over the same period in the prior year.

During the fourth quarter of 2013, the Company recorded $701,398 of additions and revaluation to a provision for amounts to be repaid under the Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund ("AIF") program resulting in a decrease in government assistance for the fourth quarter of 2013. In addition, the government assistance from Scientific Research and Experimental Development ("SRED") credits were $679,484 lower as compared to prior year, primarily due to the SRED claims for 2010 and 2011 taxation periods being recognized in the year ended September 30, 2012. These decreases have been offset by increased funding received from the AIF program and new funding recognized related to the Nova Scotia Digital Media Tax Credit program.

Share-based compensation

Pursuant to its 2011 Stock Option Plan, the Company has reserved a maximum of 16,827,718 of the issued and outstanding common shares of the Company for issuance on the exercise of share options. During the quarter the Company did not grant any further options under the plan.

The Company recorded $75,092 as share-based compensation expense for the quarter ended September 30, 2013 (2012 - $204,467) and $363,181 for the year ended September 30, 2013 (2012 - $502,434) and recorded a corresponding increase in the share option reserve.

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options granted in 2012:

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

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

The Company had 6,423,146 options outstanding as at September 30, 2013 related to the above stock option plans.

Finance costs

For the quarter ended September 30, 2013 finance costs were $117,949, an increase of $39,612 (51%) over the same quarter in the prior period. For the year months ended September 30, 2013 finance costs were $381,662, an increase of $172,158 (82%) over the same period in the prior year.

The increase is a primarily a result of a $133,830 increase in long term debt interest and accretion reflective of the additional long term debt borrowings used to fund growth in late 2012 and throughout 2013.

Depreciation and amortization

For the quarter ended September 30, 2013 depreciation and amortization expense was $208,630, an increase of $33,769 (19%) over the same quarter in the prior year. For the year ended September 30, 2013 depreciation and amortization expense was $825,093, an increase of $255,673 (45%) over the same period in the prior year.

The increase in depreciation and amortization expense is mainly related to the increased investment in deferred development costs and the increase in technology and customer relationship intangible assets recognized on the reverse takeover of Serebra in 2012.

The Company invested $1,230,473 in capital assets and intangible assets (including assets financed by finance leases) during the year ended September 30, 2013. The additions were offset by government assistance totaling $909,321 towards the cost of these assets.

Impairment loss

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

Earnings before income taxes

For the quarter ended September 30, 2013 the loss before income taxes was $1,293,871 and loss before income taxes over the same quarter in the prior year were $306,500. For the year ended September 30, 2013 loss before income taxes was $2,300,416 and earnings before income taxes of $96,025 in the same period in the prior year.

Income taxes

For the quarter ended September 30, 2013 income tax recovery was $418,057 as compared to $120,190 in the same quarter in the prior year. For the year ended September 30, 2013 income tax recovery was $576,806 and income tax expense of $115,852 in the same period in the prior year

Net earnings (loss)

For the quarter ended September 30, 2013 the Company reported a net loss of $875,814 as compared to net loss of $186,310 for the same quarter in the prior period. For the year ended September 30, 2013 the Company reported a net loss of $1,723,610 as compared to a net loss of $19,827 for the same quarter in the prior period.

QUARTERLY INFORMATION

The table below provides a summary of operating results for the Company for each quarter in the current and previous fiscal periods. Certain quarterly information below has been restated and more fully described in note 5 of the Annual Financial Statements for the year ended September 30, 2013. This table and commentary following illustrates some of the trends within the business and the impact on margins and profits of certain types of revenue-generating activities.

(Canadian dollars in thousands)

Fiscal year	2013	2013	2013	2013	2012	2012	2012	2012
	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								
Defence & Aerospace	$ 2,058	$ 2,095	$ 2,117	$ 1,701	$ 1,597	$ 2,838	$ 1,730	$ 1,575
CoursePark Learning Services	$ 898	$ 1,155	$ 674	$ 830	$ 667	$ 563	$ 702	$ 446
	2,956	3,250	2,791	2,531	2,264	3,401	2,432	2,021
Direct costs	1,461	1,479	1,637	1,429	1,024	1,689	1,319	1,069
Gross profit	1,495	1,771	1,154	1,102	1,240	1,712	1,113	952
Gross profit percentage	51%	54%	41%	44%	55%	50%	46%	47%
Expenses								
Sales and marketing	730	741	689	606	670	363	385	329
General and administration	919	1,107	998	818	782	783	924	772
Government assistance	199	(307)	(346)	(442)	(362)	(103)	(181)	(721)
Share-based compensation	75	6	131	151	204	114	184	-
Finance costs	118	89	87	87	78	55	51	26
Depreciation and amortization	209	206	206	204	175	171	140	83
Impairment loss	539	-	-	-	-	-	-	-
	2,789	1,842	1,765	1,424	1,547	1,383	1,503	489
Earnings (loss) before income taxes	(1,294)	(71)	(611)	(322)	(307)	329	(390)	463
Income taxes (recovery)	(418)	(16)	(127)	(16)	(120)	153	(92)	175
Net earnings (loss)	$ (876)	$ (55)	$ (484)	$ (306)	$ (187)	$ 176	$ (298)	$ 288

Fiscal 2013

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

Fiscal 2012

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

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

LIQUIDITY AND CAPITAL RESOURCES

For the year ended September 30, 2013 the Company generated cash and cash equivalents of $367,729 (2012 - $273,592).

Operating activities

For the year ended September 30, 2013 the Company's generated cash from operating activities of $127,900 compared to cash used of $334,628 for the same period in the prior year.

After adjusting for non-cash items, the company used cash of $46,645 for the year ended September 30, 2013 (2012 – generated $989,158).

Working capital related to operating activities decreased by $174,545 during 2013. Accounts receivable related to operating activities decreased by $823,493 primarily as a result of a decrease in outstanding trade receivables at year end. In addition, deferred revenue decreased by $702,153 as a result of timing differences between project revenue recognition and contract payment schedules. Accounts payable increased by $88,181 primarily as a result of timing of trade payables.

Investing activities

For the year ended September 30, 2013 the Company generated cash of $169,184 for investing activities compared to cash used of $2,293,733 for the same period in the prior year.

Investment in intangible assets for the period was $1,104,523 offset by government assistance of $875,791 related to the development of *CoursePark*™.

Property and equipment additions of $125,950 in the period, including lease additions of $37,511, were offset by government assistance of $177,766.

Changes in non-cash working capital for the period included a $217,412 decrease in government assistance receivables related to investing activities.

Financing activities

For the year ended September 30, 2013 the Company generated $70,645 in cash from financing activities as compared to generating $2,232,697 in cash for financing activities for the same period in the prior year.

Financing activities for the year ended September 30, 2013 included a $266,000 decrease in operating loans and $752,712 in advances of long term debt, offset by repayments of $163,281 against long term debt and $123,630 against finance lease obligations.

Cash and credit availability

At September 30, 2013 the Company had no short term bank indebtedness as compared to net indebtedness of $419,051 at September 30, 2012.

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, 2013:

Scheduled payments due by period (Canadian dollars in thousands)	Long term debt	Capital leases	Operating leases	Total
2014 (year ended September 30)	658	81	633	1,372
2015	395	22	608	1,025
2016	480	11	624	1,115
2017	511	6	627	1,144
2018	405	-	626	1,031
Thereafter	1,195	-	917	2,112
	$ 3,644	$ 120	$ 4,035	$ 7,799

During the year ended September 30, 2013 the Company executed new finance leases with total payment obligations in the amount of $37,511.

PROVISIONS AND CONTINGENT LIABILITIES

(a) Conditionally Repayable Grants

To September 30, 2013 the Company had recognized AIF contributions of $2,531,111 pursuant to a 2008 agreement, as amended and AIF contributions of $1,869,118 pursuant to a 2012 agreement. The Company must repay the contributions by annual instalments calculated as 5% of the gross revenues generated from products and services resulting from the research funded. A continuity of the amount of the provision recognized is as follows:

		2013	2012
Opening balance	$	469,903	424,004
Accretion		65,786	59,361
Royalties paid or payable		(51,082)	(14,878)
Additions and revaluations		701,938	1,416
	$	1,186,545	469,903

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

(b) Forgivable Loan

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

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

SHARE INFORMATION

At September 30, 2013 the Company had issued 98,986,609 common shares and 6,423,146 share options that can be exercised when vested to obtain an equivalent number of common shares. No shares or share options were issued during the year ended September 30, 2013.

RELATED PARTY TRANSACTIONS

Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant related party transactions are reviewed and approved by the Audit Committee of the Board. The following is a summary of related party transactions during the year ended September 30, 2013:

- The Company recorded rent expense of $241,920 for the year ended September 30, 2013 (2012 - $231,840) for rental of premises from LB2P a company controlled by the Company's President & CEO. Effective October 1, 2011 the Company entered into a 6 year lease, with a 4 year renewal option, with LB2P for 100% of the premises available for lease of 18 Prescott Street, St. John's, NL. The lease includes an initial net lease rate for two years with escalation provisions periodically thereafter.

- The Company terminated its position under a joint and several mortgage arrangement with LB2P resulting in finance charges of $29,798 in the period.

- The Company recognized an expense of $593,635 for the year ended September 30, 2013 (2012 - $533,830) for fees, salaries and benefits to its key management personnel for services rendered. Key management is considered to be members of the Board of Directors (commencing January 26, 2012), the President & Chief Executive Officer and the Chief Financial Officer. The Executive Chairman's fees are paid to a corporation under his control.

- The Company recognized an expense of $146,919 for the year ended September 30, 2013 (2012 – $178,041) for share based compensation to its key management personnel (as described in the above bullet).

- The Company recognized an expense of $31,462 for the quarter ended September 30, 2013 (2012 – $Nil) for termination benefits to its key management personnel (as described in the above bullet).

- On January 11, 2012 the Company issued loans to two employees aggregating $169,816 to facilitate the exercise of share purchase options and the purchase of shares. These shares were subsequently exchanged for shares in the Company in connection with the reverse takeover. As collateral for the non-interest bearing share purchase loans, the borrowers have granted the Company a security interest in the shares purchased. The loans are repayable within 90 days of termination of employment, are repayable at a rate of 50% of cash proceeds in the event of a sale of shares prior to repayment of the loans and are otherwise repayable in full on or before January 31, 2015.

ACCOUNTING ESTIMATES

In the process of applying the Corporation's accounting policies, management has made certain judgments, estimates, and assumptions which affect the amounts recognized in these financial statements. The Company has identified the following policies where critical judgments, estimates and assumptions are made and where actual results could be materially different.

Significant management judgements

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

(a) Revenue recognition

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

(b) Income taxes

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

The Company recorded a deferred tax asset on the reverse takeover more fully described in the Company's financial statements for the year ended September 30, 2012. Management considers that it is more likely than not that these tax assets will be realized. The ultimate realization of these assets is dependent upon the Company's ability to generate sufficient taxable income to offset the tax losses carried forward as well as the reversal of the differences between the carrying amount of items on the statement of financial position and their corresponding tax basis. If future circumstances indicate that it is no longer probable that these tax assets will be realized, the carrying value of the tax asset will be reduced, resulting in a charge against income and a reduction of equity.

(c) Government assistance

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

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

(d) Development costs

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

Estimation uncertainty

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

(a) 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. 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 D&A business and by expanding its sales channels and courseware content portfolio for the CLS business.

Credit risk

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

The Company's maximum exposure to credit risk, with respect to accounts receivable and unbilled work in progress corresponds to the carrying value. At September 30, 2013 approximately 58% (September 30, 2012 – 41%) of trade receivables were due from one customer. In accordance with contract terms, the Company bills certain customers in advance of the completion of work and records such billings as deferred revenue. This customer's trade receivable balance is substantially offset by amounts recorded as deferred revenue.

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

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

On December 31, 2013 the Company acquired all the issued and outstanding common shares of Atlantis System Corp., a publically traded company providing custom courseware development and training and simulation products to the defence and aerospace industry. The business combination will allow the Company to facilitate continued growth in training and simulation operations in the Defence & Aerospace division and provide a foundation for future growth into international markets.

The CoursePark Learning Services division will continue to invest in its *CoursePark*™ platform. Approaching 2014, the Company will continue to develop opportunities in its current Canadian market, while aiming for growth in international markets.