

Management’s Discussion and Analysis of Results of Operations and Financial Condition For the Year Ended September 30, 2012

This Management’s Discussion and Analysis of Results of Operations and Financial Condition (“MD&A”) of Bluedrop Performance Learning Inc. (formerly Serebra Learning Corporation) (“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, 2012 and should be read in conjunction with the Company’s financial statements and notes thereto for the year ended September 30, 2012. 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 February 1, 2013.

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

Caution Regarding Forward-Looking Information

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

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. The Company is subject to the risks outlined in the “Risk Factors” section of this MD&A. No assurance can be provided that the results or performance expressed in or implied by forward-looking statements within this MD&A will occur, or if they do, that any benefits may be derived from them. The forward-looking statements contained in this MD&A represent Bluedrop’s expectations as of February 1, 2013 and are subject to change after such date.

IMPACT OF REVERSE TAKEOVER ON PRESENTATION OF FINANCIAL INFORMATION

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 (“the reverse takeover”). Because Blue Drop is considered to be the acquirer for purposes of recording the reverse takeover, the Company’s financial statements for the year ended September 30, 2012, and for the comparative year ended September 30, 2011, are a continuation of the financial statements of Blue Drop, adjusted to reflect the legal capital of the Company. The combined results of operations are included from January 26, 2012.

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

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*TM is an innovative cloud-based learning management solution for individuals, corporations and other organizations. Following the commercial release of *CoursePark*TM in 2011, revenues are generated from custom courseware development, licencing and subscription fees, consulting services and sale of commercial off-the-shelf courses. The operations acquired in the reverse takeover, which also include licencing, consulting services and sale of commercial off-the-shelf courses, are included in the CLS business from January 26, 2012.

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

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

First time adoption of IFRS

The financial statements are for the period covered by the Company's first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 3 of the financial statements have been applied in preparing the financial statements for the years ended September 30, 2012 and September 30, 2011 and the opening IFRS statement of financial position on October 1, 2010, the "Transition Date". Refer to note 25 of the financial statements for the reconciliation to IFRS of the financial statements of the Company from amounts reported under Canadian GAAP.

The following discussion explains the significant difference between the Company's previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been retrospectively and consistently applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters.

The significant change to the accounting under IFRS is related to the recognition of a provision for repayment of AIF royalties which has been considered to meet the lower recognition threshold of "probable" under IFRS. Under Canadian GAAP contingent liabilities should only be recognised when "likely" to be paid therefore the AIF royalties were only recognized as a liability, and an expense, when the related product sales were recognized. Under IFRS a provision of \$395,197 was recognized as at October 1, 2010 with applicable deferred income taxes of \$59,000. The provision increased to \$424,004 at September 30, 2011 with applicable deferred income taxes of \$123,000. See below for the effect on year ended September 30, 2012.

Restatement of Quarterly Financial Statements

Upon preparation of the financial statements for the year ended September 30, 2012 certain transactions were recognized at that time that had an impact on the previous three interim financial statements as filed. A description of these transactions is provided below together with a table showing the impact on the statements of comprehensive income (loss) and the statements of financial position for each of the first, second and third quarterly interim financial statements for the year that were previously filed without reflecting these transactions. The impact of these transactions on net earnings (loss) and comprehensive income (loss), retained earnings (deficit) and on basic and diluted net earnings (loss) per share for the three quarters ended December 31, 2011, March 31, 2012 and June 30, 2012 can be seen in the table below.

1. Recognition of a contingent liability under IFRS not required under Canadian GAAP

Under IFRS a provision is recognized on the basis of a legal or constructive obligation arising from a past event if there is probable outflow of resources and the amount can be estimated reliably. This is a lower recognition threshold than was required under Canadian GAAP. On the adoption of IFRS, the Company was therefore required to recognize a provision for the repayment of AIF royalties. The provision of \$395,197 was recognized as a transitional adjustment as at October 1, 2010 as noted above.

Provisions in the statement of financial position were understated by \$435,479, \$446,954 and \$458,428 respectively at the end of the three quarters. These provisions had a direct effect on deferred taxes. The Company's net deferred tax asset (deferred tax asset less deferred tax liability) was understated by \$126,328, \$129,656 and \$132,984 respectively at the end of the three quarters.

Accretion of the provision was recognized as a financing cost in the statement of comprehensive income (loss) for the year ended September 30, 2012. Deferred taxes were adjusted accordingly as a result of the accretion expense. Net income (loss) was, as a result, over stated by \$8,147 per quarter (December 31, 2012, March 31, 2012 and June 30, 2012) in relation to this provision, the resulting increase in the net deferred tax asset and the accretion.

2. Fair value of the identifiable assets acquired and liabilities assumed for the RTO

At the date of the RTO, January 26, 2012 the Company recognized a provisional amount of \$2,542,861 for goodwill for the initial accounting of the business combination. Under the IFRS standard for business combinations the Company has up to twelve months from the RTO transaction date to complete the review of facts and circumstances to adjust the provisional accounting to an actual determination of the allocation of the excess of the fair value of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed for the RTO business combination.

The interim financial statements for the period ended March 31, 2012 and June 30, 2012 stated that the allocation of the consideration to assets and liabilities is subject to final determination of the fair value of the selected assets and liabilities and a final determination of the tax losses and timing differences which comprise the deferred tax asset.

Management completed their determination as of September 30, 2012 and retrospectively adjusted the provisional amount at the RTO date as required by IFRS by recognizing intangible assets for technology and customer relationships in the amount of \$903,060 and \$585,000 respectively. A deferred tax liability of \$402,000 was subsequently recognised as a result of the recognition of these assets. In addition, management identified \$76,035 of additional prepaid assets and \$34,241 of additional consideration as a result of a deemed exchange of share options at acquisition. The net effect of these items reduced the goodwill to \$1,415,007. These respective amounts are to be reflected in the statement of financial position for the quarter ended March 31, 2012 and June 30, 2012 at initial cost less amortization for the intangible assets and at book value for goodwill.

The Company recognized amortization on the intangible assets in accordance with the accounting policies in Note 3 to the financial statements from the date of the RTO through to September 30, 2012. The amount that is to be included for this amortization in depreciation and amortization on the statement of comprehensive income and (loss) applicable to the interim periods ended March 31, 2012 and June 30, 2012 is reflected in the tables below. The amounts are \$44,031 and \$66,046 respectively.

3. Deferred Development Costs

Management undertook an in depth review during the fourth quarter ended September 30, 2012 of the accounting for development costs and determined that the majority of the development costs incurred

during the year met the accounting criteria for deferral, in which case the costs should be deferred to the extent that their recoverability can be reasonably assured.

In 2011 there were several triggers that demonstrated commercial viability including winning a significant contract which included licensing, hosting and customization arrangements for CoursePark, entering into discussion with a multinational company for use of CoursePark as their learning management system and starting to sell commercial off-the-shelf courseware (COTS) through the CoursePark platform. These triggers provided the Company with confirmation that future cash flows were probable and that a market existed for the sale of CoursePark licenses and courseware.

In prior years development costs did not meet the accounting criteria for deferral and therefore were expensed as incurred. Research costs continue to be expensed in the period in which they are incurred. Government assistance related to the deferred development costs is also deferred. The net development costs are amortized to income in accordance with the accounting policies of the Company for such assets as set out in Note 3 to the financial statements from the date that they meet the accounting criteria for deferral. Amortization of net development cost is included in depreciation and amortization in the statement of comprehensive income and (loss).

Development costs, and related government assistance, that had previously been expensed in the interim financial statements for the periods ended December 31, 2011, March 31, 2012 and June 30, 2012 have been deferred and amortized in the amounts set out in the table below. The tax provisions for these transactions can be seen in the table below.

Certain remaining costs and government assistance not available for deferral have been reclassified in the statement of comprehensive income and (loss) for the quarters ended December 31, 2011, March 31, 2012 and June 30, 2012 as indicated in the table below. The amounts are \$124,444, \$60,130 and \$30,626 respectively. Amortization expense of \$3,294, \$5,514 and \$11,173 increased in the statement of comprehensive income (loss) for each of the quarters ended December 31, 2011, March 31, 2012 and June 30, 2012 respectively.

These development costs, net of government assistance and amortization, are recognized in the statement of financial position for the quarters ended December 31, 2011, March 31, 2012 and June 30, 2012.

4. Fair value of loans with below market interest rates

In fiscal year ended September 30, 2012 the Company received below market interest rate loans from government agencies for operating expenses and capital assets. In the financial statements for the quarter ended December 31, 2011, March 31, 2012 and June 30, 2012 as filed the Company recognized such loans at face value. Under IFRS the Company is required to recognize the below market interest rate loans at amortized cost using the effective interest rate method. The difference between the fair value at inception and the loan proceeds received is recorded as government assistance in the statement of comprehensive income (loss). The Company has recognized additional government assistance of \$43,872, \$132,985 and \$55,050 for the quarters ended December 31, 2011, March 31, 2012 and June 30, 2012 respectively.

Under IFRS accretion expense is recognized in finance costs in the statement of comprehensive income (loss) – this totaled \$Nil, \$11,669 and \$15,890 for the interim periods ended December 31, 2011, March 31, 2012 and June 30, 2012 respectively.

The impact of these transactions on the statement of comprehensive income (loss) for the quarters ended December 31, 2011, March 31, 2012 and June 30, 2012 is set out in the table below.

One of the loans with below market interest funded the acquisition of property and equipment. The calculated government assistance of \$213,450 in relation to this loan reduced the carrying value of the related assets for the quarter ended June 30, 2012 and therefore reduced amortization by \$3,558.

The following table summarizes the impact of the above transactions on the interim statement of comprehensive income (loss) and basic and fully diluted earnings per share for the periods ended December 31, 2011, March 31, 2012 and June 30, 2012 for the Company as filed on SEDAR.

Bluedrop Performance Learning Inc.
Table of Comprehensive Income (Loss)
For the Year Ended September 30, 2012
(With Restatement)

Fiscal year	Restated quarters			Quarters filed on SEDAR		
	2012	2012	2012	2012	2012	2012
	Q3	Q2	Q1	Q3	Q2	Q1
	Jun-30	Mar-31	Dec-31	Jun-30	Mar-31	Dec-31
Revenue						
<i>Defence & Aerospace</i>	\$ 2,837	\$ 1,730	\$ 1,575	2,837	1,730	1,575
<i>CoursePark Learning Services</i>	\$ 512	\$ 682	\$ 505	512	682	505
	3,349	2,412	2,080	3,349	2,412	2,080
Direct costs	1,768	1,375	1,096	1,768	1,378	1,107
Gross profit	1,581	1,037	984	1,581	1,034	973
Gross profit percentage	47%	43%	47%	47%	43%	47%
Expenses						
Sales and marketing	324	362	302	312	347	297
General and administration	757	907	780	740	887	772
Development costs	-	-	-	352	350	308
Government assistance	(103)	(181)	(721)	(331)	(294)	(843)
Loss on investments and advances	-	-	-	-	-	-
Share-based compensation	114	184	-	114	184	-
Finance costs	40	35	18	10	9	3
Depreciation and amortization	171	140	82	95	89	80
	1,303	1,447	461	1,292	1,572	617
Profit (loss) before income taxes	278	(410)	523	289	(538)	356
Income taxes (recovery)	139	(97)	185	142	(94)	189
Net profit (loss)	\$ 139	\$ (313)	\$ 338	147	(444)	167
Net earnings (loss) per share						
Basic and diluted	\$0.0014	-\$0.0033	\$0.0042	\$0.0015	-\$0.0047	\$0.0021
Weighted average number of shares						
Basic and diluted (in thousands)	98,987	94,980	81,108	98,987	94,980	81,108

The net effect of the year end accounting adjustments on the Company's statement of comprehensive income (loss) for the first three quarters of the year ended September 30, 2012 is \$293,418.

Bluedrop Performance Learning Inc.
Table of Financial Position
For the Year Ended September 30, 2012
(With Restatement)

(Canadian dollars in thousands)

Fiscal year	Restated quarters			Quarters filed on SEDAR		
	2012	2012	2012	2012	2012	2012
	Q3 Jun-30	Q2 Mar-31	Q1 Dec-31	Q3 Jun-30	Q2 Mar-31	Q1 Dec-31
ASSETS						
Current assets						
Cash and cash equivalents	45	17	-	45	17	-
Accounts receivable	4,843	4,776	3,149	4,843	4,776	3,149
Work in progress	206	232	213	206	231	213
Income taxes recoverable	-	-	15	-	-	15
Prepaid expenses	329	342	254	253	266	254
Due from related parties	-	-	-	-	-	-
	5,423	5,367	3,631	5,347	5,290	3,631
Due from related parties	220	220	50	220	220	50
Deferred tax asset	1,384	1,526	-	1,653	1,928	-
Goodwill and other intangible assets	3,412	3,502	626	2,942	2,989	493
Property and equipment	1,258	653	636	1,467	653	635
	11,697	11,268	4,943	11,629	11,080	4,809
LIABILITIES AND EQUITY						
Current liabilities						
Bank indebtedness	610	1,457	1,084	610	1,457	1,084
Accounts payable and accruals	1,949	1,278	1,108	1,948	1,276	1,108
Deferred revenue	1,570	2,341	1,127	1,570	2,341	1,127
Income taxes payable	-	-	40	-	-	40
Current portion of obligations under finance leases	69	71	67	69	71	67
Current portion of long term debt	167	103	24	167	103	24
	4,365	5,250	3,450	4,364	5,248	3,450
Obligations under finance leases	135	101	117	135	102	116
Long term debt	1,683	664	501	2,100	829	545
Class D common shares	-	-	-	-	-	-
Due to related parties	-	-	-	-	-	-
Provisions	458	447	435	-	-	-
Deferred taxes	-	3	76	-	133	202
	6,641	6,465	4,579	6,599	6,312	4,313
Equity						
Share capital	5,053	5,053	80	5,053	5,053	80
Share option reserve	332	218	440	298	184	440
Retained earnings (deficit)	(329)	(468)	(156)	(321)	(469)	(24)
	5,056	4,803	364	5,030	4,768	496
	11,697	11,268	4,943	11,629	11,080	4,809

REVERSE TAKEOVER

On January 26, 2012 the Company completed a business combination with Blue Drop. The transaction was completed by way of a statutory amalgamation whereby Blue Drop amalgamated with a wholly owned subsidiary of the Company, with the amalgamated company (Amalco) being wholly owned by the Company. In connection with the transaction, the Company issued 86,866,408 common shares to the shareholders of Blue Drop, which on closing represented 87.756% of the total issued and outstanding shares of the Company. The transaction therefore constituted a reverse takeover of the Company by Blue Drop.

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

The fair value of the consideration transferred was determined to be \$4,397,502. Consideration includes \$4,363,261 of common shares issued based on the fair value of the common shares of the Company on the closing date and \$34,241 of share option reserve related to the deemed exchange of share options at acquisition. 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	\$	263,277
Accounts receivable		261,785
Other current assets		91,988
Deferred tax asset		1,526,000
Property and equipment		38,317
Intangible assets		1,488,060
Goodwill		1,415,007
Current liabilities		(686,932)
	\$	4,397,502

The business combination allows the Company to migrate its technology and customer base to a cloud-based technology platform already in commercial release but with many features still under development. The goodwill recognized in the transaction reflects the fact that the Company's personnel, technical knowledge, experience and expertise will allow for more rapid development of *CoursePark*TM, the cloud-based learning management solution and greater penetration of additional vertical markets for the Company's full suite of training services and solutions.

Direct transaction costs in the amount of \$259,873 have been expensed during the year ended September 30, 2012 and are included in general and administration expenses. Transaction costs in the amount of \$235,034 were expensed in the year ended September 30, 2011.

Immediately following the closing of the reverse takeover transaction, the Company and Amalco completed a vertical amalgamation under the name Bluedrop Performance Learning Inc.

RESULTS OF OPERATIONS

The following tables and discussion compare Bluedrop's operating results for the quarter and year ended September 30, 2012 to the same periods ended September 30, 2011.

(Canadian dollars in thousands)	3 months ended		Change	
	September 30		(2012 vs. 2011)	
	2012	2011	\$	%
Revenue	2,631	2,025	606	30%
Direct costs	1,121	1,102	19	2%
Gross profit	1,510	923	587	64%
Gross profit percentage	57%	46%		
Expenses				
Sales and marketing	614	236	378	160%
General and administration	705	728	(23)	-3%
Development costs	-	417	(417)	-100%
Government assistance	(364)	(143)	(221)	155%
Share-based compensation	204	-	204	100%
Finance costs	117	73	44	60%
Depreciation and amortization	176	73	103	141%
Loss on investments and advances	-	217	(217)	-100%
	1,452	1,601	(149)	-9%
Earnings before income taxes	58	(678)	736	-109%
Income taxes	(22)	(64)	42	-66%
Net earnings	80	(614)	694	-113%

(Canadian dollars in thousands)	Year ended		Change	
	September 30		(2012 vs. 2011)	
	2012	2011	\$	%
Revenue	10,472	6,857	3,615	53%
Direct costs	5,360	3,598	1,762	49%
Gross profit	5,112	3,259	1,853	57%
Gross profit percentage	49%	48%		
Expenses				
Sales and marketing	1,602	705	897	127%
General and administration	3,149	1,943	1,206	62%
Development costs	-	1,137	(1,137)	-100%
Government assistance	(1,369)	(512)	(857)	167%
Share-based compensation	502	439	63	14%
Finance costs	210	76	134	176%
Depreciation and amortization	569	173	396	229%
Loss on investments and advances	-	217	(217)	-100%
	4,663	4,178	485	12%
Earnings (loss) before income taxes	449	(919)	1,368	-149%
Income taxes	205	(34)	239	-703%
Net loss	244	(885)	1,129	-128%

Revenue

For the year ended September 30, 2012 revenues from the D&A business increased by almost \$2.5 million as compared to the same period in 2011, accounting for 74% of total revenue. Revenues in the CLS business increased by over \$1.1 million during this period. The following tables illustrate the growth and shift in revenues from each identified market channel for the quarter and year ended September 30, 2012.

(Canadian dollars in thousands)

	3 months ended September 30				Change (2012 vs. 2011)	
	2012	% of total	2011	% of total	\$	%
Revenue						
<i>Defence & Aerospace</i>	1,599	61%	1,722	85%	(123)	-7%
<i>CoursePark Learning Services</i>	1,032	39%	284	14%	748	263%
<i>Corporate and other</i>	0	0%	19	1%	(19)	-100%
	<u>\$2,631</u>	100%	<u>\$2,025</u>	100%	<u>\$606</u>	30%

(Canadian dollars in thousands)

	Year ended September 30				Change (2012 vs. 2011)	
	2012	% of total	2011	% of total	\$	%
Revenue						
<i>Defence & Aerospace</i>	7,740	74%	5,270	77%	2,470	47%
<i>CoursePark Learning Services</i>	2,732	26%	1,568	23%	1,164	74%
<i>Corporate and other</i>	0	0%	19	0%	(19)	-100%
	<u>\$10,472</u>	100%	<u>\$6,857</u>	100%	<u>\$3,615</u>	53%

Total revenues for the current quarter were \$2,629,540, an increase of \$604,109 (30%) over the same quarter in the prior year. The revenue increase consisted of a decrease of \$124,312 (7%) in the D&A business and an increase of \$747,962 (263%) in the CLS business.

Total revenues on a year-to-date basis were \$10,471,506, an increase of \$3,614,108 (53%) over the same period in the prior year. The revenue increase consisted of an increase of \$2,470,026 (47%) in the D&A business and an increase of \$1,163,623 (74%) in the CLS business.

Revenues in the D&A business were slightly lower in the quarter as 2011's final quarter product sales were slightly higher than 2012's product sales result. Revenues were higher in the D&A business for the year ended September 30, 2012 due to increased resources working on two multi-year fixed-price contracts.

Revenues in the CLS business were significantly higher in the quarter and the year due to a focus on more strategic clients who require more advanced learning consulting and associated products. By focusing efforts on these clients the CLS business has been able to increase revenue streams for consulting, resale of the CoursePark product and building of custom content. The results have not only paid off financially but have also allowed the CLS business to continue to drive similar sales opportunities with other clients and they have continued to build synergy for these types of comprehensive learning programs. CLS revenue also includes the operations acquired in the reverse takeover from January 26, 2012.

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, 2012 total direct costs were \$1,121,483, an increase of \$18,538 (2%) over the same quarter in the prior year. For the year ended September 30, 2012 total direct costs were \$5,359,682, an increase of \$1,761,512 (49%) over the same period in the prior year.

The slight increase in direct costs for the quarter was as a result of the increased higher margin CLS revenue. The direct costs for the year ended September 30, 2012 increased as a result of the increased revenue.

Gross profit

For the quarter ended September 30, 2012 gross profit was \$1,508,057, an increase of \$585,571 (63%) over the same quarter in the prior year. For the year ended September 30, 2012 gross profit was \$5,111,824, an increase of \$1,852,596 (57%) over the same period in the prior year.

The reported gross profit percentage for the year ended September 30, 2012 was 49% as compared to 48% for the same period in the prior year. This increase was as a result of the increased higher margin CLS revenue noted above.

Sales and marketing

For the quarter ended September 30, 2012 net sales and marketing expenses were \$613,263, an increase of \$376,316 (159%) over the same quarter in the prior year. For the year ended September 30, 2012 net sales and marketing expenses were \$1,601,751, an increase of \$896,685 (127%) 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, 2012 net general and administration expenses were \$704,661, a decrease of \$24,656 (3%) over the same quarter in the prior year. For the year ended September 30, 2012 net general and administration expenses were \$3,148,841, an increase of \$1,205,769 (62%) 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. Professional fees are comprised primarily of fees directly and indirectly related to the reverse takeover. Direct transaction costs in the amount of \$259,873 have been expensed during the year ended September 30, 2012 (\$235,034 during 2011). The lack of transaction costs during the quarter ended September 30, 2012 resulted in the afore-mentioned decrease in net general and administration expenses for this quarter when compared to same period last year.

Professional fees for the year ended September 30, 2011 also included one-time fees associated with the implementation of new financial and project management systems.

Development costs

Development costs include costs and expenditures related to the development of *CoursePark*TM. The Company allocates occupancy costs and certain wages and employee benefits to development costs based on an estimated portion of occupancy cost and the estimated time spent on *CoursePark*TM. Development costs are expensed unless they meet the criteria for deferral, in which case they are deferred to the extent their recoverability can be reasonably assured.

For the quarter ended September 30, 2012 development costs expensed were \$Nil (2011 - \$416,489). For the year ended September 30, 2012, development costs expensed were \$Nil (2011 – \$1,137,503). The Company determined that development costs for the year ended September 30, 2012 met the criteria for deferral and were therefore deferred as noted above.

Government assistance

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

For the quarter ended September 30, 2012 government assistance was \$363,845, an increase of \$221,224 (155%) over the same quarter in the prior year. For the year ended September 30, 2012 government assistance was \$1,369,125, an increase of \$856,761 (167%) from the same period in the prior year.

Total government assistance for the year ended September 30, 2012 included \$653,250 relating to SRED claims for the taxation periods ended September 30, 2010 (\$298,132) and September 30, 2011 (\$355,098).

Government assistance also includes a grant from Invest New Brunswick for the set-up of the Company’s new office in Miramichi. This assistance totaled \$156,022 for the quarter (and year) ended September 30, 2012 (2011 - \$Nil).

Share-based compensation

Pursuant to its 2011 Stock Option Plan, the Company has reserved a maximum of 10% of the issued and outstanding common shares of the Company for issuance on the exercise of share options. During the period, the Company granted 8,371,771 options to certain directors, officers and employees of the Company under the plan. 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 \$204,467 as share-based compensation expense for the quarter ended September 30, 2012 (\$Nil for the same period in the previous year) and recorded \$502,434 in the year ended September 30, 2012, an increase of \$62,799 (14%) on the year ended September 30, 2011. Each period had a corresponding increase in the share option reserve.

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

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

The weighted average fair value of each option granted during the period, using the Black-Scholes option-pricing model was \$0.1687 per option. 7,768,021 options were outstanding as at September 30, 2012.

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. This resulted in an additional \$34,241 of consideration transferred in the reverse takeover and \$54,661 of share based compensation post-acquisition.

During the year ended September 30, 2011 the Company had granted options to purchase 377,369 Class C non-voting common shares at an exercise price of \$0.45 per Class C common share. The options were immediately exercisable by the grantee, with expiry five years after the effective date of the option grant, unless terminated in accordance with the associated Employee Stock Option Agreement. The Company recorded \$439,635 as share-based compensation expense on the grant date, with a corresponding increase in share based option reserve. On January 11, 2012 the options were exercised for proceeds of \$169,816, resulting in a reduction of \$439,635 in share option reserve and an increase in share capital of \$609,451.

Finance costs

For the quarter ended September 30, 2012 finance costs were \$115,955, an increase of \$44,650 (63%) over the same quarter in the prior year. For the year ended September 30, 2012 finance costs were \$209,504, an increase of \$133,233 (175%) over the same period in the prior year.

The year-over-year increase is a result of an increase in long term debt interest and accretion of \$84,319. During the year the Company added additional long term debt of \$1,993,410 (net of fair value discounts). In addition, short term interest and bank charges increased by \$28,518 as a result of increased usage of short term borrowing facilities. The debt was primarily used to fund additional capital and intangible asset investments throughout the year.

Depreciation and amortization

For the quarter ended September 30, 2012 depreciation and amortization expense was \$174,860, an increase of \$102,175 (141%) over the same quarter in the prior year. For the year ended September 30, 2012 depreciation and amortization expense was \$569,420, an increase of \$396,717 (230%) over the same period in the prior year. The increase is related to investment in capital assets and intangible assets, amortization of deferred development costs and amortization of the technology and customer relationship intangible assets recognised on the acquisition of Serebra as noted above.

The Company invested \$2,953,850 in capital assets and intangible assets (including assets financed by finance leases) during the year ended September 30, 2012 (2011 - \$811,763). The Company received Government assistance totaling \$1,155,046 towards the cost of these assets (2011 - \$Nil).

Earnings before income taxes

For the quarter ended September 30, 2012 earnings before income taxes were \$58,696 and losses before income taxes over the same quarter in the prior year were \$678,281. For the year ended September 30, 2012 earnings before income taxes were \$448,999 which represents a significant improvement on the \$919,303 loss before income taxes over the same period in the prior year.

Income taxes

For the quarter ended September 30, 2012 income tax credit was \$21,587, an increase of \$42,596 from the same quarter in the prior year.

For the year ended September 30, 2012, the Company recorded a net tax expense of \$205,429. This includes the current tax expense of \$76,086. The tax expense for the first quarter ended December 31, 2011 reflected an adjustment to taxes recorded for the year ended September 30, 2011 as a result of claiming the SRED credits in that period.

Net earnings

For the quarter ended September 30, 2012 the Company reported net earnings of \$80,283 as compared to a net loss of \$614,098 for the same quarter in the prior year. For the year ended September 30, 2012 the Company reported net earnings of \$243,570 as compared to a net loss of \$885,303 for the same period in the prior year.

QUARTERLY INFORMATION

The table below provides a summary of operating results for the Company for each quarter in the current and previous fiscal years. 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	2012	2012	2012	2012	2011	2011	2011	2011
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	Sep-12	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31
Revenue								
<i>Defence & Aerospace</i>	\$ 1,599	\$ 2,837	\$ 1,730	\$ 1,575	\$ 1,722	\$ 2,269	\$ 707	\$ 572
<i>CoursePark Learning Services</i>	\$ 1,032	\$ 512	\$ 682	\$ 505	\$ 284	\$ 350	\$ 636	\$ 298
<i>Corporate and other</i>	-	-	-	-	19	-	-	-
	2,631	3,349	2,412	2,080	2,025	2,619	1,343	870
Direct costs	1,121	1,768	1,375	1,096	1,102	1,228	741	527
Gross profit	1,510	1,581	1,037	984	923	1,391	602	343
Gross profit percentage	57%	47%	43%	47%	46%	53%	45%	39%
Expenses								
Sales and marketing	614	324	362	302	236	169	151	147
General and administration	705	757	907	780	728	393	441	381
Development costs	-	-	-	-	417	308	208	204
Government assistance	(364)	(103)	(181)	(721)	(143)	(144)	(119)	(107)
Loss on investments and advances	-	-	-	-	217	-	-	-
Share-based compensation	204	114	184	-	-	-	439	-
Finance costs	117	40	35	18	73	2	2	2
Depreciation and amortization	176	171	140	82	73	41	32	27
	1,452	1,303	1,447	461	1,601	769	1,154	654
Profit (loss) before income taxes	58	278	(410)	523	(678)	622	(552)	(311)
Income taxes (recovery)	(22)	139	(97)	185	(64)	90	(14)	(46)
Net profit (loss)	\$ 80	\$ 139	\$ (313)	\$ 338	\$ (614)	\$ 532	\$ (538)	\$ (265)

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 \$725,000 in government assistance relating to SRED claims for F2010, F2011 and F2012, contributing to a net profit for Q1.

Fiscal 2011

The increase in revenues and gross profit in Q2 reflected the commencement of a large contract in the CLS business in March 2011. The Company recorded share-based compensation during Q2, offsetting the margin increases associated with the CLS business contract.

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

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

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the year ended September 30, 2012 the Company generated \$334,628 in cash for operating activities as compared to generating \$678,939 in cash from operating activities for the same period in the prior year. Over the year to September 30, 2012 the Company decreased cash and cash equivalents by \$51,408 (2011 - decreased by \$120,306).

The change in cash used for operating activities relates to temporary changes in the timing of client billings and cash receipts (\$291,158) as well as accrued receivables relating to government assistance recorded in the year (\$1,218,961).

The timing of revenue recognition also differs from contract payment schedules. Amounts billed in accordance with customer contracts but in advance of completion of services or delivery of goods are recorded as deferred revenue. The value of unbilled services performed is recorded as work in progress. The decrease in deferred revenue for the year was \$624,339 (balance as at September 30 2011 plus transfer as a result of the RTO and less the balance as at September 30 2012) and the increase in work in progress was \$191,601.

Investing activities

For the year ended September 30, 2012 the Company used cash of \$2,293,733 for investing activities compared to \$955,697 for the same period in the prior year.

Investing activities for the year ended September 30, 2012 included an investment of \$1,203,621 in property and equipment, net of \$42,858 government assistance. The majority of this investment helped to create the Bluedrop Training and Simulation Centre in Halifax, Nova Scotia.

An investment of \$627,716 was incurred in the year ended September 30, 2012 for intangible assets including the deferment \$564,053 of development costs (net of \$898,738 government assistance) related to the development of *CoursePark*™.

Investing activities for the year ended September 30, 2011 included a \$200,000 advance and an investment of \$618,949 in capital assets and intangible assets.

Financing activities

For the year ended September 30, 2012 the Company generated \$1,907,697 cash from financing activities as compared to generating \$156,452 in cash for financing activities for the same period in the prior year.

Financing activities for the year ended September 30, 2012 included \$2,467,626 in proceeds from new long term debt, \$169,816 proceeds on exercise of options and a reorganization of debt which yielded \$125,000 net cash, net of repayments of \$60,520 against finance lease obligations and \$24,002 against long term debt.

Financing activities for the year ended September 30, 2011 included repayments of \$81,714 against finance lease obligations and \$92,989 against long term debt.

Cash and credit availability

At September 30, 2012 the Company was indebted to banks for \$419,051 as compared to net indebtedness of \$411,508 at September 30, 2011.

On April 26, 2012, the Company executed a new Credit Facilities Agreement with Royal Bank of Canada increasing its short-term bank operating line of credit to a maximum of the lesser of \$2,000,000 and defined marginable accounts receivable minus specified liabilities. In addition the Company has a VISA travel and expense credit facility of \$200,000 and a lease facility of \$250,000 to support future investment in capital assets (approximately \$125,000 undrawn).

On July 24, 2012, the Company has entered into a short term non-revolving loan in the amount of \$266,000 with Royal Bank of Canada. The facility is repayable on January 31, 2013, or upon receipt of the tax refund for the 2011 SRED return, and bears interest at Royal Bank prime plus 2.90%. The Company has provided a General Security Agreement as security for this indebtedness. The outstanding balance as at September 30, 2012 was \$266,000.

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, 2012:

Scheduled payments due by period (Canadian dollars in thousands)	Long term debt	Capital leases	Operating leases	Total
2013	320	106	668	1,094
2014	703	70	588	1,361
2015	441	22	525	988
2016	425	11	527	963
2017	316	6	524	846
Thereafter	638	-	1,440	2,078
	\$ 2,843	\$ 215	\$ 4,272	\$ 7,330

During the year ended September 30, 2012 the Company executed new finance leases with total payment obligations in the amount of \$219,097.

PROVISIONS AND CONTINGENT LIABILITIES

(a) Conditionally Repayable Grants

To September 30, 2012 the Company had recognized AIF contributions of \$2,531,111 pursuant to a 2008 agreement with ACOA, as amended and contributions of \$713,702 pursuant to an AIF agreement entered into with ACOA in 2012. The 2012 ACOA agreement is for a maximum contribution of \$3,000,000 over the life of the agreement. The Company must repay the contributions by annual installments calculated as 5% of the gross revenues generated from products and services resulting from the research funded. A continuity of the amount of the provision recognized is as follows:

	2012	2011
Opening balance	\$ 424,004	395,197
Accretion	59,361	55,328
Royalties paid or payable	(14,878)	(31,395)
Revaluation of provision	1,416	4,874
	\$ 469,903	424,004

(b) Joint and Several Mortgage Liability

The Company is jointly and severally liable for a mortgage issued in the names of LB2P, the Company and Rizbollo Holdings Limited. The principal balance on the mortgage at September 30, 2012 was \$1,056,500. The liability is recorded on the balance sheet of LB2P which owns the asset securing the indebtedness. Should LB2P fail to meet the obligations under the mortgage, the Company may be required to satisfy those obligations. The loan bears interest at the Business Development Bank of Canada's floating base rate less 0.25% which, at September 30, 2012 was 4.75%, and is repayable in monthly interest payments until October 2012, after which the loan is repayable in monthly principal installments of \$4,500 plus interest until April 2032. Management does not anticipate any payments will be required by the Company and as such no provision has been recorded.

(c) Forgivable Loan

The Company received a loan from the Province of New Brunswick in the amount of up to \$260,000 for the purpose of assisting with the expansion of the Company's operations in New Brunswick. The Company is entitled to have the loan, including any accrued interest thereon, forgiven in accordance with a forgiveness agreement between the parties. Any portion of the loan that is not forgiven in accordance with the loan agreement and the forgiveness agreement is repayable with accrued interest no later than four 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, 2012, the estimated amount owing, including accrued interest would be \$288,884. Management does not anticipate any repayment will be required and as such no provision has been recorded.

SHARE INFORMATION

At September 30, 2012 the Company had issued 98,986,609 common shares and 8,911,385 share options that can be exercised when vested to obtain an equivalent number of common shares.

The reverse takeover resulted in continuation of the financial statements of Blue Drop, adjusted to reflect the legal capital of the Company. The follow table illustrates the transactions in the Company’s common shares during the year ended September 30, 2012, including the eliminations to give effect to the reverse takeover.

	Number of shares	Share capital
Issued and outstanding at September 30, 2011	38,676,016	\$ 11,663,735
Share proceeds received		13,500
Private placement, net of share issue costs	6,304,788	360,842
Issued as compensation to directors, officers, employees and	3,500,000	315,000
	48,480,804	12,353,077
Share consolidation (4 to 1)	(36,360,603)	-
Issued and outstanding at January 26, 2012	12,120,201	12,353,077
Blue Drop’s common shares at January 26, 2012	5,692,425	689,760
Eliminations as a result of the reverse takeover	(5,692,425)	(12,353,077)
	12,120,201	689,760
Issued as consideration for the reverse takeover	86,866,408	4,363,261
Issued and outstanding at September 30, 2012	98,986,609	5,053,021

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, 2012:

- The Company recorded rent expense of \$57,960 for the quarter ended September 30, 2012 (2011 - \$45,000) and \$231,840 for the year ended September 30, 2012 (2011 - \$165,000) for rental of premises from LB2P a company controlled by the Company’s President & CEO. Effective October 1, 2011 the Company entered into a 10 year lease 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 every two years thereafter.
- The Company recognized an expense of \$165,230 for the quarter ended September 30, 2012 (2011 - \$128,350) and \$533,830 for the year ended September 30, 2012 (2011 - \$313,133) for fees, salaries and benefits to its key management personnel for services rendered. Key management is considered to be members of the Board of Directors (commencing January 26, 2012), the President & Chief Executive Officer and the Chief Financial Officer. The former CFO was engaged on a fee for service basis from November 1, 2010 to September 30, 2011, at which time he became a full time employee of the Company. The Executive Chairman’s fees are paid to a corporation under his control.
- The Company recognized an expense of \$Nil for the quarter ended September 30, 2012 (2011 – Nil) and \$178,041 for the year ended September 30, 2012 (2011 – Nil) for share based compensation to its key management personnel (as described in the above bullet).
- On January 11, 2012 the Company issued loans to two employees aggregating \$169,816 to facilitate the exercise of share purchase options and the purchase of shares. These shares were subsequently exchanged for shares in the Company in connection with the reverse takeover. As collateral for the non-interest bearing share purchase loans, the borrowers have granted the Company a security interest in the shares purchased. If the shares are subject to escrow, as shares are released from escrow they may be held by the Company as collateral. 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. 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.

(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 recorded 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 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) program. 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 program are recorded when amounts can be reasonably estimated and receipt is reasonably assured. Government assistance may be overstated if the underlying project is determined to be ineligible or if certain costs claimed are determined to be ineligible.

(d) Development costs

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

Estimation uncertainty

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

(a) Business combinations

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

(b) Fair value of financial liabilities

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

(c) Impairment of non-financial assets

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

(d) Revenue recognition

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

(e) Share-based compensation

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

RISKS

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

Customer risk

The Company is currently completing multi-year contracts that collectively accounted for 50% of the Company's total revenue for the year ended September 30, 2012. The loss of these contracts and/or a failure to secure similar contracts in the future could have a significant impact on the Company's financial condition and results of operations.

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

The Company's business strategy includes plans to diversify sources of revenue by expanding its product and service offerings in the D&A business and by expanding its sales channels and courseware content portfolio for the CLS business.

Credit risk

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

The Company's maximum exposure to credit risk, with respect to accounts receivable and unbilled work in progress corresponds to the carrying value. At September 30, 2012 approximately 41% (September 30, 2011 – 52%) 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, 2012 was \$35,764 (September 30, 2011 - \$35,764). At September 30, 2012 the Company's trade accounts receivable included amounts over 90 days old totaling \$419,757 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (September 30, 2011 – \$49,004).

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 2010, 2011 and 2012 Bluedrop has continued to invest to support its continuing year over year revenue growth. The Company has continued to hire key management and technical personnel, has received ISO 9001:2008 certification for three of its offices, fostered key strategic relationships, invested in strategic intangible assets, secured an arrangement with a key low-cost simulator developer and has continued the commercial roll out of *CoursePark*[™].

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