

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

Six months ended March 31, 2014

Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of Bluedrop Performance Learning Inc. (the Company) have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, the Company discloses that its independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Contents

Consolidated Statements of Financial Position	1
Consolidated Statements of Comprehensive Loss	2
Consolidated Statements of Changes in Equity	3
Consolidated Statements of Cash Flows	4
Notes to Condensed Consolidated Interim Financial Statements	5

Bluedrop Performance Learning Inc.

Consolidated Statements of Financial Position

Unaudited

March 31
2014

September 30
2013

In Canadian dollars

ASSETS

Current assets

Cash and cash equivalents	\$	101,086	229,813
Accounts receivable (Note 5)		6,421,608	3,127,292
Work in progress		578,357	493,572
Prepaid expenses		461,450	449,034
Due from related parties (Note 6)		121,588	139,791
		7,684,089	4,439,502
Due from related parties (Note 6)		50,227	50,227
Deferred tax assets		4,908,839	2,139,961
Goodwill and other intangible assets (Note 7)		4,209,083	3,045,022
Property and equipment (Note 8)		1,309,697	1,106,634
	\$	18,161,935	10,781,346

LIABILITIES AND EQUITY

Current liabilities

Bank indebtedness (Note 9)	\$	733,953	-
Accounts payable and accruals		4,442,975	1,754,576
Deferred revenue		2,446,126	1,616,965
Due to related parties (Note 6)		-	61,379
Current portion of obligations under finance leases		43,661	76,790
Current portion of long term debt (Note 10)		361,738	470,340
		8,028,453	3,980,050
Obligations under finance leases		20,415	35,568
Long term debt (Note 10)		7,403,936	2,065,173
Provisions (Note 11)		1,287,226	1,186,545
Long term payables		143,831	-
		16,883,861	7,267,336
Equity			
Share capital (Note 12)		5,053,021	5,053,021
Reserves (Note 12)		1,306,804	899,856
Deficit		(5,081,751)	(2,438,867)
		1,278,074	3,514,010
	\$	18,161,935	10,781,346

Approved on Behalf of the Board



Derrick H. Rowe
Director



Emad Rizkalla
Director

Bluedrop Performance Learning Inc.

Consolidated Statements of Comprehensive Loss

Unaudited

Six months ended March 31

In Canadian dollars

	Three Months Ended March 31		Six Months Ended March 31	
	2014	2013 (As Restated) (Note 3)	2014	2013 (As Restated) (Note 3)
Revenue				
Services revenue	\$ 3,949,376	2,463,374	\$ 5,528,347	4,673,494
Product sales	528,662	327,639	986,889	647,977
	4,478,038	2,791,013	6,515,236	5,321,471
Direct costs	2,756,455	1,666,054	4,009,504	3,105,125
Gross profit	1,721,583	1,124,959	2,505,732	2,216,346
Expenses				
Sales and marketing	764,268	689,430	1,507,939	1,295,637
General and administration	1,298,707	969,261	2,282,334	1,761,097
Acquisition and restructuring costs (Note 4)	210,764	-	1,877,170	-
Government assistance (Note 13)	(421,972)	(346,497)	(650,551)	(772,295)
Share-based compensation (Note 12)	54,036	130,908	127,134	282,120
Finance costs (Note 14)	377,794	87,341	495,636	174,758
Depreciation and amortization	216,730	206,441	393,411	410,783
	2,500,327	1,736,884	6,033,073	3,152,100
Loss before income taxes	(778,744)	(611,925)	(3,527,341)	(935,754)
Income tax recovery				
Current	(9,579)	-	(9,579)	-
Deferred	(206,731)	(126,805)	(874,878)	(143,212)
	(216,310)	(126,805)	(884,457)	(143,212)
Net loss and comprehensive loss	\$ (562,434)	(485,120)	\$ (2,642,884)	(792,542)
Net loss per share				
Basic	(0.0057)	(0.0049)	(0.0267)	(0.0080)
Diluted	(0.0057)	(0.0049)	(0.0267)	(0.0080)
Weighted average number of shares outstanding				
Basic	98,986,609	98,986,609	98,986,609	98,986,609
Diluted	98,986,609	98,986,609	98,986,609	98,986,609

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Six months ended March 31In Canadian dollars

	Ordinary Common Shares	Share Capital	Share Option Reserve	Convertible Notes	Retained Earnings (Deficit)	Total
October 1, 2012	98,986,609	\$ 5,053,021	536,675	-	(715,257)	4,874,439
Share-based compensation	-	-	282,120	-	-	282,120
Loss and comprehensive loss	-	-	-	-	(792,542)	(792,542)
March 31, 2013	98,986,609	\$ 5,053,021	818,795	-	(1,507,799)	4,364,017
Share-based compensation	-	-	81,061	-	-	81,061
Loss and comprehensive loss	-	-	-	-	(931,068)	(931,068)
September 30, 2013	98,986,609	\$ 5,053,021	899,856	-	(2,438,867)	3,514,010
Share-based compensation	-	-	127,134	-	-	127,134
Issue of convertible note (Note 10(a))	-	-	-	279,814	-	279,814
Loss and comprehensive loss	-	-	-	-	(2,642,884)	(2,642,884)
March 31, 2014	98,986,609	\$ 5,053,021	1,026,990	279,814	(5,081,751)	1,278,074

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Six months ended March 31

2014

2013

In Canadian dollars

(As Restated)
(Note 3)

Increase (decrease) in cash and cash equivalents

Operating activities

Net loss for the period	\$	(2,642,884)	(792,542)
Items not affecting cash:			
Share-based compensation		127,134	282,120
Depreciation and amortization		393,411	410,783
Non-cash government assistance		(125,511)	(152,375)
Additions and revaluation of provision		23,131	16,250
Finance costs		495,636	174,758
Deferred taxes		(874,878)	(143,212)
Loss on disposal of property and equipment		5,913	-
Interest paid		(19,378)	(36,547)
		(2,617,426)	(240,765)
Changes in non-cash working capital (Note 15)		254,079	(1,258,468)
		(2,363,347)	(1,499,233)

Investing activities

Change in related party balances		(43,176)	(14,762)
Net cash flow on business combinations (Note 4)		(910,449)	-
Proceeds on disposal of property and equipment		6,000	-
Purchase of property and equipment, net of government assistance		(111,505)	129,438
Purchase of intangible assets, net of government assistance		(105,607)	(70,162)
		(1,164,737)	44,514
Changes in non-cash working capital (Note 15)		(117,842)	412,579
		(1,282,579)	457,093

Financing activities

Decrease in operating loan		-	(266,000)
Repayment of obligations under finance leases		(48,282)	(61,025)
Advances of long term debt		4,281,465	166,162
Repayment of long term debt		(1,306,281)	(62,303)
Repayment of royalties		(32,551)	(50,859)
Increase in long term payables		38,831	-
Interest paid		(149,936)	(32,717)
		2,783,246	(306,742)

Decrease in cash and cash equivalents

		(862,680)	(1,348,882)
Cash and cash equivalents, beginning of period		229,813	(137,916)
Cash and cash equivalents, end of period	\$	(632,867)	(1,486,798)

Cash and cash equivalents consists of:

Cash on hand and in bank	\$	101,086	7,468
Bank overdraft		(733,953)	(1,494,266)
	\$	(632,867)	(1,486,798)

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014

In Canadian dollars

1. Nature of operations

Bluedrop Performance Learning Inc. (formerly Serebra Learning Corporation) (the Company) was continued under the Corporations Act of Newfoundland and Labrador on January 26, 2012.

On January 26, 2012 the Company completed a business combination with Blue Drop Inc. (Blue Drop) which constituted a reverse takeover of the Company by Blue Drop. Because Blue Drop is considered to be the acquirer for purposes of recording the business combination, these financial statements are a continuation of the financial statements of Blue Drop, adjusted to reflect the legal capital of the Company. On January 27, 2012 the Company commenced trading on the TSX Venture Exchange under the symbol BPL.

The Company provides e-learning and course development services and offers online training solutions for businesses and individuals through *CoursePark*[™], a cloud-based learning management solution and *Campus*[™], a traditional learning management system. In addition, the Company provides custom courseware development, training products, low cost simulation and resource augmentation solutions to improve the safety, productivity and efficiency of military and civil aviation personnel through its defence and aerospace operations. The Company is domiciled in Canada and its registered office is located at 18 Prescott Street, St. John's, Newfoundland and Labrador, A1C 3S4.

These financial statements were approved and authorized for issuance by the Board of Directors on May 30, 2014.

2. Basis of presentation

These condensed consolidated interim financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) and in accordance with International Accounting Standard (IAS) 34 Consolidated Interim Financial Reporting using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board (IASB). These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the preparation of the Company's audited annual financial statements for the year ended September 30, 2013. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended September 30, 2013.

These financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities, which are measured at their fair value, and are presented in Canadian dollars.

The accounting policies have been applied consistently in the preparation of the financial statements of all periods presented.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014In Canadian dollars

3. 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 above adjustments on the three and six months ended March 31, 2013 financial results is as follows:

	March 31 2013		March 31
	Previously Reported	Adjustment	2013 Restated
Statement of financial position			
Deferred revenue	1,327,131	917,667	2,244,798
Deferred tax assets and liabilities	1,452,706	247,770	1,700,476
Defecit	(837,902)	(669,897)	(1,507,799)
Statement of comprehensive loss (six months ended March 31, 2013)			
Revenue	5,599,854	(278,383)	5,321,471
Income tax recovery	(68,049)	(75,163)	(143,212)
Net loss and comprehensive loss	(589,322)	(203,220)	(792,542)
Net loss per share - Basic and Diluted	(0.0060)	(0.0020)	(0.0080)
Statement of comprehensive loss (three months ended March 31, 2013)			
Revenue	3,206,900	(415,887)	2,791,013
Income tax recovery	(14,516)	(112,289)	(126,805)
Net loss and comprehensive loss	(181,522)	(303,598)	(485,120)
Net loss per share - Basic and Diluted	(0.0018)	(0.0031)	(0.0049)

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014

In Canadian dollars

4. Business combinations

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

The cash consideration transferred in the Plan of Arrangement was \$1,000,000. The long term debt agreements of Atlantis were renegotiated concurrent with the acquisition. The Company 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.

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.

Provisional value of assets acquired and liabilities assumed

Cash	\$	89,551
Accounts receivable		2,031,297
Work in progress		616,333
Prepaid expenses		18,164
Deferred tax asset		1,894,000
Intangible Assets		46,193
Goodwill		1,259,876
Property plant and equipment		240,022
Accounts payable and accruals		(1,982,147)
Deferred revenue		(673,453)
Long term debt		(2,434,836)
Long term payables		(105,000)
	\$	1,000,000

The allocation of the consideration to assets and liabilities is subject to a final determination of the fair value of selected assets and liabilities, including identification and valuation of acquired intangible assets and a final determination of the tax losses and timing differences which comprise the deferred tax asset.

Acquisition related costs in the amount of \$1,563,824 have been expensed during the six months ended March 31, 2014. Costs include legal fees, advisory services, restructuring costs and employee termination benefits associated with the acquisition.

5. Accounts receivable

	March 31	September 30
	2014	2013
Trade	\$ 4,398,673	1,666,427
Government assistance	1,984,473	1,446,483
Other	38,462	14,382
	\$ 6,421,608	3,127,292

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014In Canadian dollars

6. Related party transactions

(a) Due from (to) related parties

	March 31	September 30
	2014	2013
LB2P Holdings Inc.	\$ -	20,202
Shareholder loan	1,999	(61,379)
Share purchase loans	169,816	169,816
	<u>\$ 171,815</u>	<u>128,639</u>

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

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

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.

(b) Related party transactions

	Three months ended		Six months ended	
	March 31		March 31	
	2014	2013	2014	2013
Rent expense	\$ 65,520	57,960	131,040	115,920
Fees, salaries and benefits for key management personnel	243,417	153,350	402,400	309,700
Share based compensation for key management personnel	49,643	51,780	79,243	109,195

Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Effective October 1, 2011, the Company entered into a 6 year lease, with a 4 year renewal option, with LB2P for 100% of the premises available for lease at 18 Prescott Street, St. John's, NL. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter.

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

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014In Canadian dollars

7. Goodwill and other intangible assets

	Computer software	Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost							
October 1, 2012	\$ 232,659	265,500	183,116	1,467,113	585,000	1,415,007	4,148,395
Additions	22,603	-	(2,346)	1,084,266	-	-	1,104,523
Government assistance	-	-	-	(593,431)	-	-	(593,431)
September 30, 2013	\$ 255,262	265,500	180,770	1,957,948	585,000	1,415,007	4,659,487
Additions	15,571	-	-	420,036	-	-	435,607
Government assistance	-	-	-	(320,755)	-	-	(320,755)
Business combination (Note 4)	46,193	-	-	-	-	1,259,876	1,306,069
March 31, 2014	\$ 317,026	265,500	180,770	2,057,229	585,000	2,674,883	6,080,408
Accumulated amortization and impairment losses							
October 1, 2012	\$ 149,750	84,554	61,559	155,301	55,714	-	506,878
Amortization	44,622	67,642	61,038	311,697	83,572	-	568,571
Impairment loss	-	86,679	13,695	438,642	-	-	539,016
September 30, 2013	\$ 194,372	238,875	136,292	905,640	139,286	-	1,614,465
Amortization	20,248	17,750	19,826	157,250	41,786	-	256,860
March 31, 2014	\$ 214,620	256,625	156,118	1,062,890	181,072	-	1,871,325
Carrying values							
October 1, 2012	\$ 82,909	180,946	121,557	1,311,812	529,286	1,415,007	3,641,517
September 30, 2013	\$ 60,890	26,625	44,478	1,052,308	445,714	1,415,007	3,045,022
March 31, 2014	\$ 102,406	8,875	24,652	994,339	403,928	2,674,883	4,209,083
Carrying values of assets subject to finance leases							
October 1, 2012	\$ 587	-	-	-	-	-	587
September 30, 2013	\$ 294	-	-	-	-	-	294
March 31, 2014	\$ 220	-	-	-	-	-	220

Included in Technology are \$420,036 of internally generated additions for the six months ended March 31, 2014.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014In Canadian dollars

8. Property and equipment

	Computer equipment	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost					
October 1, 2012	\$ 665,763	1,185,427	113,640	274,594	2,239,424
Additions	21,650	43,625	-	23,164	88,439
Additions subject to finance leases	37,511	-	-	-	37,511
Government assistance	-	(315,890)	-	-	(315,890)
September 30, 2013	\$ 724,924	913,162	113,640	297,758	2,049,484
Additions	101,034	7,819	-	2,652	111,505
Disposals	-	(17,472)	-	-	(17,472)
Business combination (Note 4)	156,513	83,509	-	-	240,022
March 31, 2014	\$ 982,471	987,018	113,640	300,410	2,383,539
Accumulated depreciation					
October 1, 2012	\$ 422,164	135,634	68,369	60,161	686,328
Depreciation	84,811	121,012	13,581	37,118	256,522
September 30, 2013	\$ 506,975	256,646	81,950	97,279	942,850
Depreciation	53,938	57,226	4,754	20,633	136,551
Disposals	-	(5,559)	-	-	(5,559)
March 31, 2014	\$ 560,913	308,313	86,704	117,912	1,073,842
Carrying values					
October 1, 2012	\$ 243,599	1,049,793	45,271	214,433	1,553,096
September 30, 2013	\$ 217,949	656,516	31,690	200,479	1,106,634
March 31, 2014	\$ 421,558	678,705	26,936	182,498	1,309,697
Carrying values of assets subject to finance leases					
October 1, 2012	\$ 105,915	122,780	-	-	228,695
September 30, 2013	\$ 103,341	98,224	-	-	201,565
March 31, 2014	\$ 87,840	88,401	-	-	176,241

9. Operating loans

On December 17, 2013, the Company amended its existing Credit Facilities Agreement with Royal Bank of Canada to increase its short-term bank operating line of credit to a maximum of the lesser of \$3,500,000 and defined marginable accounts receivable minus specified liabilities. The revolving operating facility is repayable on demand and bears interest at Royal Bank prime plus 1.95%. The Company has provided a General Security Agreement as security for this indebtedness. The Company has drawn \$445,000 against the line of credit as at March 31, 2014 (September 30, 2013 – \$Nil).

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014

In Canadian dollars

10. Long term debt

		March 31	September 30
	Maturity	2014	2013
Secured term note - 4.4%	2010-2015 \$	17,928	25,332
Secured term note - 1.9%	2009-2013	-	883
Unsecured convertible term note - 14%	2013-2016	2,738,698	-
Secured convertible term note - 8%	2013-2015	1,474,447	-
Unsecured royalty obligation	n/a	1,058,775	-
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	425,545	410,653
Atlantic Canada Oportunities Agency - non-interest bearing	2012-2017	294,292	328,569
Government of Nova Scotia - 5%	2013-2021	1,125,700	1,162,000
Atlantic Canada Oportunities Agency - non-interest bearing	2013-2018	339,416	368,580
Invest New Brunswick - non-interest bearing	2013-2014	129,305	239,496
Atlantic Canada Oportunities Agency - non-interest bearing	2015-2019	161,568	-
		7,765,674	2,535,513
less: current portion		(361,738)	(470,340)
Total long term debt	\$	7,403,936	2,065,173

During the six months ended March 31, 2014, Bluedrop entered into the following long term debt arrangements:

(a) Unsecured convertible term note - 14%

On December 30, 2013, the Company received financing of \$3,000,000 in the form of a convertible debenture. The unsecured debenture bears interest at 14% per annum, interest payable quarterly, and is repayable on December 30, 2016. The debenture is convertible at a conversion price of \$0.15 per common share, being at a rate of 6,667 common shares per \$1,000 principal amount of debenture. Upon conversion, any accrued interest shall be converted into common shares at the conversion price.

(b) Secured convertible term note - 8%

In connection with the Acquisition of Atlantis (Note 4) on December 31, 2013, the Company assumed \$2,500,000 of long term debt, \$1,000,000 of which was repaid immediately following the acquisition. The remaining principal and accrued interest is repayable on or before June 30, 2015. The term loan bears interest at 8% per annum. The debenture is convertible at a conversion price of \$0.15 per common share, being at a rate of 6,667 common shares per \$1,000 principal amount of debenture. Upon conversion, any accrued interest shall be converted into common shares at the conversion price. The note is secured under a General Security Agreement.

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

On February 3, 2014, the Company received \$281,465 in connection with a \$500,000 funding contribution under ACOA's Business Development Program to assist with national and international commercialization activities. The unsecured, non-interest bearing loan is repayable in 60 monthly instalments of \$8,333 commencing on January 1, 2015.

(d) Unsecured royalty obligation

During the quarter ended March 31, 2014, the Company received \$1,000,000 of financing in the form of a royalty arrangement. The agreement requires Bluedrop to pay a royalty of 1.0% of revenues in exchange for the principal provided. The Company has accounted for the arrangement in accordance with *IAS 39 Financial Instruments: Recognition and Measurement*.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014In Canadian dollars

11. Provisions

(a) Conditionally-repayable grants

To March 31, 2014 the Company had recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,349,118 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:

	March 31	September 30
	2014	2013
Opening balance	\$ 1,186,545	469,903
Accretion	100,856	65,786
Royalties paid or payable	(32,551)	(51,082)
Additions and revaluations	32,376	701,938
	\$ 1,287,226	1,186,545

12. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

	Number of	Share
	Shares	capital
Issued and outstanding at October 1, 2012	98,986,609	\$ 5,053,021
Issued and outstanding at September 30, 2013	98,986,609	5,053,021
Issued and outstanding at March 31, 2014	98,986,609	\$ 5,053,021

(c) Share options (2010 Stock Option Plan)

	Number of	Exercise price
	options	per share
Outstanding at October 1, 2012	1,143,364	\$0.40
Expired	(905,989)	\$0.40
Outstanding and exercisable at September 30, 2013 and March 31, 2014	237,375	\$0.40

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014

In Canadian dollars

12. Share capital (continued)

(d) Share options (2011 Stock Option Plan)	Number of options	Exercise price per share
Outstanding at September 30, 2012	7,768,021	\$0.24
Forfeitures	(1,318,875)	\$0.19
Expired	(288,375)	\$0.22
Outstanding at September 30, 2013	6,160,771	\$0.18
Granted	9,248,284	\$0.13
Forfeitures	(386,400)	\$0.26
Outstanding at March 31, 2014	15,022,655	\$0.18
Exercisable at March 31, 2014	3,783,081	\$0.22

Pursuant to the 2011 Stock Option Plan, the Company has reserved a maximum of 16,827,718 of common shares of the Company for issuance on the exercise of share options. These options expire five years after the date of grant and vest over a three year period as follows: 10% at time of grant; 20% on the first anniversary; 20% on the second anniversary and 50% on the third anniversary.

The Company recorded \$127,134 of share-based compensation expense in the six months ended March 31, 2014 relating to the 2011 Stock Option Plan (March 31, 2013 - \$282,120). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options granted in the six months ended March 31, 2014:

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

13. Government assistance

	Three months ended March 31		Six months ended March 31	
	2014	2013	2014	2013
ACOA-AIF contributions	\$ 240,000	294,689	480,000	534,896
less: additions and revaluation of ACOA-AIF provision	(15,533)	-	(32,376)	(16,250)
National Research Council - Industrial Research Assistance Program	13,677	52,360	46,945	117,127
Invest New Brunswick	56,158	-	88,147	62,979
Scientific Research and Experimental Development credits	60,000	85,000	120,000	170,000
Nova Scotia Digital Media Tax Credits	87,600	60,000	111,600	243,795
Nova Scotia Capital Investment Incentive	-	(1,754)	-	177,766
Discounts on below-market interest rate financial liabilities	125,511	107,174	125,511	152,375
	\$ 567,413	597,469	939,827	1,442,688
Government assistance included in:				
Net earnings	421,972	346,497	650,551	772,295
Deferred revenue	(15,740)	-	(31,479)	-
Intangible assets	161,181	252,726	320,755	492,627
Property and equipment	-	(1,754)	-	177,766
	\$ 567,413	597,469	939,827	1,442,688

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014In Canadian dollars

14. Finance costs

	Three months ended March 31		Six months ended March 31	
	2014	2013	2014	2013
Interest on long term debt	\$ 158,671	18,271	177,094	37,668
Interest on finance lease obligations	1,265	2,140	2,831	4,859
Short term interest and bank charges	14,573	15,762	19,352	29,853
Accretion of long term debt	152,831	33,995	195,477	62,791
Accretion of provisions	50,428	16,447	100,856	32,894
Other financing costs	26	726	26	6,693
Total finance costs	\$ 377,794	87,341	495,636	174,758

15. Changes in non-cash working capital

	2014	2013
Accounts receivable	\$ (1,263,019)	250,578
Work in progress	531,548	(1,232,087)
Prepaid expenses	5,748	(700)
Accounts payable and accruals	706,252	210,640
Deferred revenue	155,708	(74,320)
	\$ 136,237	(845,889)
Changes in non-cash working capital related to:		
Operating activities	254,079	(1,258,468)
Investing activities	(117,842)	412,579
	\$ 136,237	(845,889)

16. Expenses classified by nature

Certain expenses are classified by function in the statement of comprehensive (loss) income. These include Direct costs, Sales and marketing, and General and administration. A schedule of these expenses presented by nature is as follows:

	Three months ended March 31		Six months ended March 31	
	2014	2013	2014	2013
Salaries and employee benefits	\$ 3,629,394	2,169,300	5,585,387	4,130,824
Materials, services and supplies	350,727	472,699	690,756	712,296
Travel and living	157,596	98,504	248,525	273,364
Occupancy	273,879	172,622	447,032	342,220
Professional fees	159,110	145,337	269,745	196,078
Other costs	248,724	266,283	558,332	507,077
Total expenses classified by nature	\$ 4,819,430	3,324,745	7,799,777	6,161,859

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014

In Canadian dollars

17. Segment reporting

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

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

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

Segment profit or loss includes revenues and costs directly attributable to the operations of the segment. In addition management allocates a portion of shared administrative costs based on the attributable office space of those segments. Segment information for the reporting periods are as follows:

	Six months ended March 31, 2014			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 2,000,909	4,514,327	-	6,515,236
Direct costs	645,657	3,363,847	-	4,009,504
Gross profit	1,355,252	1,150,480	-	2,505,732
Expenses				
Sales and marketing	1,036,676	469,043	2,220	1,507,939
General and administration	521,942	546,796	1,213,596	2,282,334
Acquisition and restructuring costs	186,000	70,417	1,620,753	1,877,170
Government assistance	(366,495)	(111,600)	(172,456)	(650,551)
Share-based compensation	42,493	(16,464)	101,105	127,134
Finance costs	-	-	495,636	495,636
Depreciation and amortization	270,420	73,494	49,497	393,411
	1,691,036	1,031,686	3,310,351	6,033,073
Loss before income taxes	\$ (335,784)	118,794	(3,310,351)	(3,527,341)

	Three months ended March 31, 2014			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 889,306	3,588,732	-	4,478,038
Direct costs	317,214	2,439,241	-	2,756,455
Gross profit	572,092	1,149,491	-	1,721,583
Expenses				
Sales and marketing	539,811	222,395	2,062	764,268
General and administration	257,061	342,994	698,652	1,298,707
Acquisition and restructuring costs	-	70,417	140,347	210,764
Government assistance	(195,184)	(87,600)	(139,188)	(421,972)
Share based compensation	22,828	(34,032)	65,240	54,036
Finance costs	-	-	377,794	377,794
Depreciation and amortization	137,736	45,496	33,498	216,730
	762,252	559,670	1,178,405	2,500,327
Earnings (loss) before income taxes	\$ (190,160)	589,821	(1,178,405)	(778,744)

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014

In Canadian dollars

17. Segment reporting (continued)

	Six months ended March 31, 2013			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,503,404	3,818,067	-	5,321,471
Direct costs	750,116	2,355,009	-	3,105,125
Gross profit	753,288	1,463,058	-	2,216,346
Expenses				
Sales and marketing	664,988	621,555	9,094	1,295,637
General and administration	397,036	344,369	1,019,692	1,761,097
Government assistance	(376,125)	(288,996)	(107,174)	(772,295)
Share based compensation	73,351	78,994	129,775	282,120
Finance costs	-	-	174,758	174,758
Depreciation and amortization	279,328	93,517	37,938	410,783
	1,038,578	849,439	1,264,083	3,152,100
Earnings (loss) before income taxes	\$ (285,290)	613,619	(1,264,083)	(935,754)

	Three months ended March 31, 2013			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 673,655	2,117,358	-	2,791,013
Direct costs	369,775	1,296,279	-	1,666,054
Gross profit	303,880	821,079	-	1,124,959
Expenses				
Sales and marketing	371,806	309,130	8,494	689,430
General and administration	209,980	181,238	578,043	969,261
Government assistance	(179,323)	(60,000)	(107,174)	(346,497)
Share based compensation	34,044	35,941	60,923	130,908
Finance costs	-	-	87,341	87,341
Depreciation and amortization	139,783	47,264	19,394	206,441
	576,290	513,573	647,021	1,736,884
Earnings (loss) before income taxes	\$ (272,410)	307,506	(647,021)	(611,925)

18. Comparative figures

Comparative figures have been reclassified to conform with the March 31, 2014 statement of comprehensive Loss presentation. Presentation changes include reclassification of certain labour costs previously classified as general and administration to direct costs and reclassification of revaluation of the AIF provision from direct costs to government assistance.

19. Subsequent events

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

On April 1, 2014, the Company received a second installment of \$145,817 in connection with a \$500,000 funding contribution under ACOA's Business Development Program to assist with national and international commercialization activities. The unsecured, non-interest bearing loan is repayable in 60 monthly instalments of \$8,333 commencing on January 1, 2015.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Six months ended March 31, 2014

In Canadian dollars

19. Subsequent events (continued)

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

On May 27, 2014, the Company received the first installment of \$173,279 in connection with a \$500,000 funding contribution under ACOA's Business Development Program to assist with national and international commercialization activities . The unsecured, non-interest bearing loan is repayable in five quarterly instalments of \$100,000 commencing on January 1, 2015.