

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

Three months ended December 31, 2013

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.

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Bluedrop Performance Learning Inc.

Consolidated Statements of Financial Position

Unaudited

December 31
2013

September 30
2013

In Canadian dollars

ASSETS

Current assets

Cash and cash equivalents	\$	270,402	229,813
Accounts receivable (Note 5)		4,751,726	3,127,292
Work in progress		816,590	493,572
Prepaid expenses		418,310	449,034
Due from related parties (Note 6)		140,236	139,791
		6,397,264	4,439,502
Due from related parties (Note 6)		50,227	50,227
Deferred tax assets		4,702,108	2,139,961
Goodwill and other intangible assets (Note 7)		4,294,253	3,045,022
Property and equipment (Note 8)		1,290,179	1,106,634
	\$	16,734,031	10,781,346

LIABILITIES AND EQUITY

Current liabilities

Accounts payable and accruals	\$	4,771,987	1,754,576
Deferred revenue		2,036,834	1,616,965
Due to related parties (Note 6)		-	61,379
Current portion of obligations under finance leases		63,531	76,790
Current portion of long term debt (Note 10)		415,195	470,340
		7,287,547	3,980,050
Obligations under finance leases		22,634	35,568
Long term debt (Note 10)		6,170,605	2,065,173
Provisions (Note 11)		1,233,240	1,186,545
Long term payables		233,533	-
		14,947,559	7,267,336
Equity			
Share capital (Note 12)		5,053,021	5,053,021
Reserves (Note 12)		1,252,768	899,856
Deficit		(4,519,317)	(2,438,867)
		1,786,472	3,514,010
	\$	16,734,031	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

Three months ended December 31**2013****2012**

In Canadian dollars

(As Restated)
(Note 3)**Revenue**

Services revenue	\$	1,578,971	2,210,120
Product sales		458,227	320,338
		2,037,198	2,530,458
Direct costs		1,253,049	1,439,071
Gross profit		784,149	1,091,387

Expenses

Sales and marketing		743,671	606,207
General and administration		1,163,714	791,836
Acquisition related costs (Note 4)		1,480,406	-
Government assistance (Note 13)		(228,579)	(425,798)
Share-based compensation (Note 12)		73,098	151,212
Finance costs (Note 14)		117,842	87,417
Depreciation and amortization		176,681	204,342
Other gains and losses		5,913	-
		3,532,746	1,415,216
Loss before income taxes		(2,748,597)	(323,829)

Income tax recovery

Deferred		(668,147)	(16,407)
		(668,147)	(16,407)

Net loss and comprehensive loss

\$ (2,080,450) (307,422)

Net loss per share

Basic	(0.0210)	(0.0031)
Diluted	(0.0210)	(0.0031)

**Weighted average number of
shares outstanding**

Basic	98,986,609	98,906,609
Diluted	98,986,609	98,906,609

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Three months ended December 31

In Canadian dollars

	Ordinary Common Shares		Share Capital	Share Option Reserve	Convertible Notes	Retained Earnings (Deficit)	Total
October 1, 2012	98,986,609	\$	5,053,021	536,675	-	(715,257)	4,874,439
Share-based compensation	-		-	151,212	-	-	151,212
Loss and comprehensive loss	-		-	-	-	(307,422)	(307,422)
December 31, 2012	98,986,609	\$	5,053,021	687,887	-	(1,022,679)	4,718,229
Share-based compensation	-		-	211,969	-	-	211,969
Loss and comprehensive loss	-		-	-	-	(1,416,188)	(1,416,188)
September 30, 2013	98,986,609	\$	5,053,021	899,856	-	(2,438,867)	3,514,010
Share-based compensation	-		-	73,098	-	-	73,098
Issue of convertible note (Note 10(a))	-		-	-	279,814	-	279,814
Loss and comprehensive loss	-		-	-	-	(2,080,450)	(2,080,450)
December 31, 2013	98,986,609	\$	5,053,021	972,954	279,814	(4,519,317)	1,786,472

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Three months ended December 31

2013

2012

In Canadian dollars

(As Restated)
(Note 3)

Increase (decrease) in cash and cash equivalents

Operating activities

Net loss for the period	\$	(2,080,450)	(307,422)
Items not affecting cash:			
Share-based compensation		73,098	151,212
Depreciation and amortization		176,681	204,342
Non-cash government assistance		-	(45,201)
Additions and revaluation of provision		11,417	16,250
Finance costs		117,842	87,417
Deferred taxes		(668,147)	(16,407)
Loss on disposal or property and equipment		5,913	-
Interest paid		(4,779)	(20,059)
		(2,368,425)	70,132
Changes in non-cash working capital (Note 15)		1,483,588	(781,369)
		(884,837)	(711,237)

Investing activities

Change in related party balances		(61,824)	(43,877)
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		(7,819)	141,383
Purchase of intangible assets, net of government assistance		(62,034)	(18,921)
		(1,036,126)	78,585
Changes in non-cash working capital (Note 15)		47,158	(398,433)
		(988,968)	(319,848)

Financing activities

Repayment of obligations under finance leases		(26,193)	(28,504)
Advances of long term debt		3,000,000	166,162
Repayment of long term debt		(1,147,381)	(31,125)
Repayment of royalties		(20,576)	(19,159)
Increase in long term payables		128,533	-
Interest paid		(19,989)	(16,178)
		1,914,394	71,196

Increase (decrease) in cash and cash equivalents

Cash and cash equivalents, beginning of period		229,813	(137,916)
Cash and cash equivalents, end of period	\$	270,402	(1,097,805)

Cash and cash equivalents consists of:

Cash on hand and in bank	\$	270,402	72,195
Bank overdraft		-	(1,170,000)
	\$	270,402	(1,097,805)

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2013

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 February 28, 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

Three months ended December 31, 2013In 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 months ended December 31, 2012 financial results is as follows:

	December 31 2012 Previously Reported		December 31 2012 Restated
	Reported	Adjustment	
Statement of financial position			
Deferred revenue	1,597,552	501,780	2,099,332
Deferred tax assets and liabilities	1,438,190	135,481	1,573,671
Defecit	(656,380)	(366,299)	(1,022,679)
Statement of comprehensive loss			
Revenue	2,392,954	137,504	2,530,458
Income tax recovery	(53,533)	37,126	(16,407)
Net loss and comprehensive loss	(407,800)	100,378	(307,422)
Net loss per share - Basic and Diluted	(0.0041)	0.0010	(0.0031)

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2013

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 the defence and aerospace markets and provide 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.

Direct transaction costs in the amount of \$1,480,406 have been expensed during the three months ended December 31, 2013. Costs include legal fees, advisory services, restructuring costs and employee termination benefits associated with the acquisition.

5. Accounts receivable

	December 31	September 30
	2013	2013
Trade	\$ 3,154,862	1,666,427
Government assistance	1,582,189	1,446,483
Other	14,675	14,382
	\$ 4,751,726	3,127,292

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2013In Canadian dollars

6. Related party transactions

(a) Due from (to) related parties

	December 31	September 30
	2013	2013
LB2P Holdings Inc.	\$ 18,285	20,202
Shareholder loan	2,362	(61,379)
Employees - share purchase loans	169,816	169,816
	<u>\$ 190,463</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

	2013	2012
Rent expense	\$ 65,520	57,960
Fees, salaries and benefits for key management personnel	158,983	156,350
Share based compensation for key management personnel	29,600	57,415

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 (CFO) 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

Three months ended December 31, 2013

In 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	-	-	-	227,034	-	-	227,034
Government assistance	-	-	-	(159,574)	-	-	(159,574)
Business combination (Note 4)	46,193	-	-	-	-	1,259,876	1,306,069
December 31, 2013	\$ 301,455	265,500	180,770	2,025,408	585,000	2,674,883	6,033,016
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	7,611	8,875	9,913	77,006	20,893	-	124,298
December 31, 2013	\$ 201,983	247,750	146,205	982,646	160,179	-	1,738,763
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
December 31, 2013	\$ 99,472	17,750	34,565	1,042,762	424,821	2,674,883	4,294,253
Carrying values of assets subject to finance leases							
October 1, 2012	\$ 587	-	-	-	-	-	587
September 30, 2013	\$ 294	-	-	-	-	-	294
December 31, 2013	\$ 257	-	-	-	-	-	257

Included in Technology are \$227,034 of internally generated additions for the three months ended December 31, 2013.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2013In 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	-	7,819	-	-	7,819
Disposals	-	(17,472)	-	-	(17,472)
Business combination (Note 4)	156,513	83,509	-	-	240,022
December 31, 2013	\$ 881,437	987,018	113,640	297,758	2,279,853
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	16,346	23,390	2,377	10,270	52,383
Disposals	-	(5,559)	-	-	(5,559)
December 31, 2013	\$ 523,321	274,477	84,327	107,549	989,674
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
December 31, 2013	\$ 358,116	712,541	29,313	190,209	1,290,179
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
December 31, 2013	\$ 95,591	93,312	-	-	188,903

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 line of credit was undrawn as at December 31, 2013 (September 30, 2013 – \$Nil).

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2013

In Canadian dollars

10. Long term debt

		December 31	September 30
	Maturity	2013	2013
Secured term note - 4.4%	2010-2015	\$ 21,651	25,332
Secured term note - 1.9%	2009-2013	-	883
Unsecured convertible term note - 14%	2013-2016	2,720,186	-
Secured convertible term note - 8%	2013-2015	1,434,836	-
Government assistance debt:			
Province of Newfoundland and Labrador - 4.75%	2016-2019	418,006	410,653
Atlantic Canada Oportunities Agency - non-interest bearing	2012-2017	311,644	328,569
Government of Nova Scotia - 5%	2013-2021	1,143,896	1,162,000
Atlantic Canada Oportunities Agency - non-interest bearing	2013-2018	354,180	368,580
Invest New Brunswick - non-interest bearing	2013-2014	181,401	239,496
		6,585,800	2,535,513
less: current portion		(415,195)	(470,340)
Total long term debt		\$ 6,170,605	2,065,173

During the three months ended December 31, 2013, 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.

11. Provisions

(a) Conditionally-repayable grants

To December 31, 2013 the Company had recognized AIF contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and AIF contributions of \$2,109,118 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:

	December 31	September 30
	2013	2013
Opening balance	\$ 1,186,545	469,903
Accretion	50,428	65,786
Royalties paid or payable	(20,576)	(51,082)
Additions and revaluations	16,843	701,938
	\$ 1,233,240	1,186,545

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2013

In Canadian dollars

12. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

	Number of Shares	Share capital
Issued and outstanding at October 1, 2012	98,906,609	\$ 5,053,021
Issued and outstanding at September 30, 2013	98,906,609	5,053,021
Issued and outstanding at December 31, 2013	98,906,609	\$ 5,053,021

(c) Share options (2010 Stock Option Plan)

	Number of options	Exercise price per share
Outstanding at October 1, 2012	1,143,364	\$0.40
Expired	(880,989)	\$0.40
Outstanding and exercisable at September 30, 2013 and December 31, 2013	262,375	\$0.40

(d) Share options (2011 Stock Option Plan)

	Number of options	Exercise price per share
Outstanding at September 30, 2012	7,768,021	\$0.24
Forfeitures	(1,318,875)	\$0.19
Expired	(288,375)	\$0.22
Outstanding at September 30, 2013 and December 31, 2013	6,160,771	\$0.25
Exercisable at September 30, 2013 and December 31, 2013	1,848,231	\$0.25

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. As at December 31, 2013 the Company has 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 \$73,098 of share-based compensation expense in the three months ended December 31, 2013 relating to the 2011 Stock Option Plan (December 31, 2012 - \$151,212). There were no options granted in the three months ended December 31, 2013.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2013

In Canadian dollars

13. Government assistance

	2013	2012
Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (AIF)	\$ 240,000	240,207
less: additions and revaluation of AIF provision	(16,843)	(16,250)
National Research Council Canada - Industrial Research Assistance Program	33,268	64,767
Invest New Brunswick	31,989	62,979
Scientific Research and Experimental Development credits	60,000	85,000
Nova Scotia Digital Media Tax Credits	24,000	183,795
Nova Scotia Capital Investment Incentive	-	179,520
Discounts on below-market interest rate financial liabilities	-	45,201
	\$ 372,414	845,219
Government assistance included in:		
Net earnings	228,579	425,798
Deferred revenue	(15,739)	-
Intangible assets	159,574	239,901
Property and equipment	-	179,520
	\$ 372,414	845,219

14. Finance costs

	2013	2012
Interest on long term debt	\$ 18,423	19,397
Interest on finance lease obligations	1,566	2,719
Short term interest and bank charges	4,779	14,091
Accretion of long term debt	42,646	28,796
Accretion of provisions	50,428	16,447
Other financing costs	-	5,967
Total finance costs	\$ 117,842	87,417

15. Changes in non-cash working capital

	2013	2012
Accounts receivable	\$ 406,863	62,045
Work in progress	293,315	(797,941)
Prepaid expenses	48,888	59,775
Accounts payable and accruals	1,035,264	(283,895)
Deferred revenue	(253,584)	(219,786)
	\$ 1,530,746	(1,179,802)
Changes in non-cash working capital related to:		
Operating activities	1,483,588	(781,369)
Investing activities	47,158	(398,433)
	\$ 1,530,746	(1,179,802)

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Three months ended December 31, 2013

In Canadian dollars

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:

	2013	2012
Salaries and employee benefits	\$ 2,141,993	1,961,524
Materials, services and supplies	340,029	239,597
Travel and living	90,929	174,860
Occupancy	173,153	169,598
Professional fees	110,635	50,741
Other costs	303,695	240,794
Total expenses classified by nature	\$ 3,160,434	2,837,114

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:

	Three months ended December 31, 2013			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 1,111,603	925,595	-	2,037,198
Direct costs	328,443	924,606	-	1,253,049
Gross profit	783,160	989	-	784,149
Expenses				
Sales and marketing	496,865	246,648	158	743,671
General and administration	450,881	203,802	509,031	1,163,714
Acquisition related costs	-	-	1,480,406	1,480,406
Government assistance	(171,311)	(24,000)	(33,268)	(228,579)
Share-based compensation	19,665	17,568	35,865	73,098
Finance costs	-	-	117,842	117,842
Depreciation and amortization	132,684	27,998	15,999	176,681
Other gains and losses	-	-	5,913	5,913
	928,784	472,016	2,131,946	3,532,746
Loss before income taxes	\$ (145,624)	(471,027)	(2,131,946)	(2,748,597)

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

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17. Segment reporting (continued)

	Three months ended December 31, 2012			
	Bluedrop Learning Networks	Bluedrop Training and Simulation	Corporate and Other	Total
Revenue	\$ 829,749	1,700,709	-	2,530,458
Direct costs	380,341	1,058,730	-	1,439,071
Gross profit	449,408	641,979	-	1,091,387
Expenses				
Sales and marketing	293,182	312,425	600	606,207
General and administration	187,056	163,131	441,649	791,836
Government assistance	(196,802)	(228,996)	-	(425,798)
Share based compensation	39,307	43,053	68,852	151,212
Finance costs	-	-	87,417	87,417
Depreciation and amortization	139,545	46,253	18,544	204,342
	462,288	335,866	617,062	1,415,216
Earnings (loss) before income taxes	\$ (12,880)	306,113	(617,062)	(323,829)

18. Comparative figures

Comparative figures have been reclassified to conform with the December 31, 2013 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) Royalty arrangement

On January 14, 2014, the Company received the first installment of \$500,000 financing in the form of a royalty arrangement. The Company will account for the arrangement in accordance with *IAS 39 Financial Instruments: Recognition and Measurement*. The agreement requires Bluedrop to pay a royalty of 0.5% of revenues in exchange for the principal provided. On February 27, 2014, the Company received a second installment of \$500,000 under the agreement extending the royalty rate to 1%.

(i) 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.