

Management's Discussion and Analysis of Results of Operations and Financial Condition For the Three Months Ended December 31, 2013

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") of Bluedrop Performance Learning Inc. ("Bluedrop" or "the Company") provides the reader with a view and analysis, from the perspective of management, of Bluedrop's financial results for the three months ended December 31, 2013 and should be read in conjunction with the Company's Condensed Consolidated Interim Financial Statements and notes thereto for the three months ended December 31, 2013. All financial information has been prepared in accordance with International Financial Reporting Standards, except as noted. All monetary amounts are stated in Canadian dollars. References to years are to the fiscal years ended September 30th unless otherwise noted. This MD&A has been prepared as of January 28, 2014.

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

Caution Regarding Forward-Looking Information

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

Forward-looking statements, by their nature, are based on assumptions, including those described herein and are subject to risks and uncertainties that may cause actual results or events to differ materially from the results or events predicted in this discussion. The Company is subject to the risks outlined in the "Risk Factors" section of this MD&A. No assurance can be provided that the results or performance expressed in or implied by forward-looking statements within this MD&A will occur, or if they do, that any benefits may be derived from them. The forward-looking statements contained in this MD&A represent Bluedrop's expectations as of January 28, 2014 and are subject to change after such date.



COMPANY OVERVIEW

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

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

The Company's corporate office is located in St. John's, Newfoundland and Labrador, Canada. The Company currently has approximately 200 employees working at six offices in Canada.

BUSINESS COMBINATION

On December 31, 2013 the Company, under a Plan of Arrangement, acquired all the issued and outstanding common shares of Atlantis Systems Corp. (Atlantis), a publically traded company listed on the TSX Venture - NEX Exchange. Atlantis is a custom courseware developer and provider of training and simulation products to the defence and aerospace industry. The business combination allows the Company to facilitate continued growth in training and simulation operations in 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 a	ssets 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 equip	ment			240,022
Accounts payable and ac	ccruals			(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 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.



RESULTS OF OPERATIONS

The following tables and discussion compare Bluedrop's operating results for the three months ended December 31, 2013 to the same period ended December 31, 2012.

	Three months ended		Change			
	Decei	mber 31	(2013 vs	(2013 vs. 2012)		
(Canadian dollars in thousands)	2013	2012	\$	%		
Revenue				_		
Services revenue	1,579	2,210	(631)	-29%		
Product sales	458	320	138	43%		
	2,037	2,530	(493)	-19%		
Direct costs	1,253	1,439	(186)	-13%		
Gross profit	784	1,091	(307)	-28%		
Gross profit percentage	38%	43%				
Expenses						
Sales and marketing	744	606	138	23%		
General and administration	1,164	792	372	47%		
Acquisition related costs	1,480	-	1,480	100%		
Government assistance	(229)	(426)	197	-46%		
Share-based compensation	73	151	(78)	-52%		
Finance costs	118	87	31	36%		
Depreciation and amortization	177	204	(27)	-13%		
Other gains and losses	6	-	6	100%		
	3,533	1,414	2,119	150%		
Loss before income taxes	(2,749)	(323)	(2,426)	751%		
Income taxes	(668)	(16)	(652)	4075%		
Net loss	(2,081)	(307)	(1,774)	578%		

Revenue

For the quarter ended December 31, 2013 revenues were \$2,037,198, a decrease of \$493,260 (19%) as compared to the same period in 2012.

The following tables illustrate the change in revenues from each identified operating segment for the three months ended December 31, 2013.

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		3 Months ended December 31				(2013 vs. 2012)		
		2013	% of total	2012	% of total	\$	%	
Revenue								
Bluedrop Training a	and Simulation	926	45%	1,701	67%	(775)	-46%	
Bluedrop Learning	Networks _	1,111	55%	830	33% _	281	34%	
		2,037	100%	2,531	100%	(494)	-20%	

Revenues in the Bluedrop Learning Networks business were significantly higher in the quarter primarily as a result of growth in license sales of the $CoursePark^{TM}$ platform as well as increased activity in courseware development projects.

The decreased revenues in the Bluedrop Training and Simulation business are primarily attributed to delays in executing several professional service contracts which were anticipated to begin in the quarter. In addition, management reviewed a significant professional service contract during the first quarter of 2013 and increased the estimated costs to complete the contract resulting in a downward revision of percent complete revenue estimates.

Direct costs

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

Change



For the quarter ended December 31, 2013 total direct costs were \$1,253,049, a decrease of \$186,022 (13%) over the same quarter in the prior fiscal year.

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

Gross profit

For the quarter ended December 31, 2013 gross profit was \$784,149, a decrease of \$307,238 (28%) over the same quarter in the prior period. The reported gross profit percentage for the quarter ended December 31, 2013 was 38% as compared to 43% for the same period in the prior year.

The Bluedrop Training and Simulation business unit gross profit for the three months ended December 31, 2013 was \$989 versus \$641,979 for the same period in 2012. The gross profit percentage was 0% for the current period versus 38% for the prior period. The significant decrease in Bluedrop Training and Simulation gross profit was primarily a result of delays in executing several professional service contracts which were anticipated to begin in the quarter in addition to an adjustment to percent complete estimates associated with a significant professional services contract. The Company was unable to deploy the affected employees in the period which resulted in less billable hours and utilization than expected in the period.

The Bluedrop Learning Networks business unit gross profit for the three months ended December 31, 2013 was \$783,160 as compared to \$449,408 for the same period in 2012, resulting in a gross margin of 70% versus 54% for the same period in 2012. The increase in gross profit was as a result of growth in CoursePark™ licensing sales and increased activity in courseware development projects.

Sales and marketing

For the quarter ended December 31, 2013 sales and marketing expenses were \$743,671, an increase of \$137,464 (23%) over the same quarter in the prior period.

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 December 31, 2013 net general and administration expenses were \$1,163,714, an increase of \$371,878 (47%) over the same quarter in the prior period.

The overall increase was due to increased wages and benefits reflective of some restructuring activities in the period and increased professional fees associated with growth of the business.

Acquisition related costs

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

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.

Government assistance

For the quarter ended December 31, 2013 government assistance included in income was of \$228,579, a decrease of \$197,219 (46%) over the same quarter in the prior period.



Funding related to the Nova Scotia Digital Media Tax Credit program decreased by \$159,795 over the same period in 2012. During the first quarter of the prior fiscal period, the Company recognized \$183,795 of funding related to the Nova Scotia Digital Media Tax Credit program, including \$122,585 of credits related to the year ended September 30, 2012.

In addition, in the prior period the company recorded \$45,201 of discounts on below-market interest rate financial liabilities from loans provided by government agencies. There were no loans from government agencies in the first quarter of the current fiscal period.

Share-based compensation

Pursuant to its 2011 Stock Option Plan, the Company has reserved a maximum of 16,827,718 of the issued and outstanding common shares of the Company for issuance on the exercise of share options. The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model.

The Company recorded \$73,098 as share-based compensation expense for the quarter ended December 31, 2013 (2012 - \$151,212) and recorded a corresponding increase in the share option reserve. During the quarter the Company did not grant any further options under the plan.

Finance costs

For the quarter ended December 31, 2013 finance costs were \$117,842, an increase of \$30,425 (35%) over the same quarter in the prior period. The increase is a primarily a result of a \$33,981 increase in accretion of the AIF provision as a result of a revaluation increase in the fourth quarter of the year ended September 30, 2013.

Depreciation and amortization

For the quarter ended December 31, 2013 depreciation and amortization expense was \$176,681, a decrease of \$27,661 (14%) over the same quarter in the prior year.

The decrease in depreciation and amortization expense is mainly related to a decrease in the carrying value of certain intangible assets as a result of an impairment loss recorded in the final quarter of the year ended September 30, 2013. This decrease was offset by increased investments in deferred development costs.

The Company invested \$234,853 in capital assets and intangible assets during the three months ended December 31, 2013. The additions were offset by government assistance totaling \$159,574 towards the cost of these assets.

Other gains and losses

For the quarter ended December 31, 2013 the Company recorded a loss on disposal of property and equipment of \$5,913.

Income taxes

For the quarter ended December 31, 2013 income tax recovery was \$668,147 as compared to \$16,407 in the same quarter in the prior year. The income tax recovery is directly related to the loss incurred in the quarter.



QUARTERLY INFORMATION

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

(Canadian dollars in thousands)								
Fiscal year	2014	2013	2013	2013	2013	2012	2012	2012
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	Dec-31	Sep-30	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31
Revenue								
Bluedrop Training and Simulation	\$ 926	\$ 2,058	\$ 2,095	\$ 2,117	\$ 1,701	\$ 1,597	\$ 2,838	\$ 1,730
Bluedrop Learning Networks	\$ 1,111	\$ 898	\$ 1,155	\$ 674	\$ 830	\$ 667	\$ 563	\$ 702
	2,037	2,956	3,250	2,791	2,531	2,264	3,401	2,432
Direct costs	1,253	1,422	1,516	1,666	1,439	1,061	1,746	1,341
Gross profit	784	1,534	1,734	1,125	1,092	1,203	1,655	1,091
Gross profit percentage	38%	52%	53%	40%	43%	53%	49%	45%
Expenses								
Sales and marketing	744	730	741	689	606	670	363	385
General and administration	1,164	975	1,069	969	792	744	741	894
Acquisition related costs	1,480	-	-	-	-	-	-	-
Government assistance	(229)	183	(307)	(346)	(426)	(362)	(118)	(173)
Share-based compensation	73	75	6	131	151	204	114	184
Finance costs	118	118	89	87	87	78	55	51
Depreciation and amortization	177	209	206	206	204	175	171	140
Other gains and losses	6	539	-	-	-	-	-	-
	3,533	2,829	1,804	1,736	1,414	1,509	1,326	1,481
Earnings (loss) before income taxes	(2,749)	(1,295)	(70)	(611)	(322)	(306)	329	(390)
Income taxes (recovery)	(668)	(418)	(16)	(127)	(16)	(120)	153	(92)
Net earnings (loss)	\$ (2,081)	\$ (877)	\$ (54)	\$ (484)	\$ (306)	\$ (186)	\$ 176	\$ (298)

Fiscal 2014

During the first quarter of fiscal 2014, the Company acquired all the issued and outstanding common shares of Atlantis Systems Corp. resulting in significant acquisition related costs in the quarter. The Bluedrop Training and Simulation business experienced decreased revenues and gross profit as a result of delays in executing several professional service contracts which were anticipated to begin in the quarter resulting in a significant decrease in revenues for the quarter. Bluedrop Learning Networks continued growth in both of its CoursePark™ licensing sales and courseware development functions.

Fiscal 2013

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

Costs associated with sales and marketing and general and administration costs continued to rise throughout 2013 as a result of continued investment in the business. In the fourth quarter of 2013 management recorded an impairment loss as a result of a strategic review of assets in both the Bluedrop Learning Networks and Bluedrop Training and Simulation businesses.

Fiscal 2012

The significant increase in revenue, gross profit and net profit in Q3 reflected the Company's second simulator sale in the Bluedrop Training and Simulation business. Sales and marketing costs have increased as a result of increased wages and employee benefits, travel costs and marketing and promotional costs. General and administrative expenses during Q2 included professional fees relating to the reverse takeover in January 2012.



LIQUIDITY AND CAPITAL RESOURCES

For the quarter ended December 31, 2013 the Company generated cash and cash equivalents of \$40,589 (2012 – used cash of \$959,889).

Operating activities

For the quarter ended December 31, 2013 the Company's used cash from operating activities of \$884,837 compared to cash used of \$711,237 for the same period in the prior year.

Working capital related to operating activities decreased by \$1,483,588 during 2013. Accounts receivable related to operating activities decreased by \$359,705 primarily as a result of a decrease in outstanding government assistance receivables at year end. In addition, work in progress decreased by \$293,315 and deferred revenue decreased by \$253,584 as a result of timing differences between project revenue recognition and contract payment schedules. Accounts payable increased by \$1,035,264 primarily as a result of payables associated with the acquisition related costs. Accounts payable at December 31, 2013 included \$884,381 associated with acquisition costs and \$1,362,177 of employee termination benefits payable.

Investing activities

For the quarter ended December 31, 2013 the Company consumed cash of \$988,968 for investing activities compared to cash used of \$319,848 for the same period in the prior year. The net cash outflow as a result of the acquisition of Atlantis was \$910,449.

Investment in intangible assets for the period was \$227,034 offset by government assistance of \$165,000 related to the development of $CoursePark^{TM}$.

Changes in non-cash working capital for the period included a \$47,158 decrease in government assistance receivables related to investing activities.

Financing activities

For the quarter ended December 31, 2013 the Company generated \$1,914,394 in cash from financing activities as compared to generating \$71,196 in cash for financing activities for the same period in the prior year.

Financing activities for the quarter ended December 31, 2013 included a \$3,000,000 advance of long term debt, offset by repayments of \$1,147,381 against long term debt.

Cash and credit availability

At December 31, 2013 the Company had no short term bank indebtedness.

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

On December 17, 2013, the Company amended the above Credit Facilities Agreement with Royal Bank of Canada to increase its short-term bank operating line of credit to a maximum of the lesser of \$3,500,000 and defined marginable accounts receivable minus specified liabilities.



CONTRACTUAL OBLIGATIONS

The following table contains a summary of the Company's contractual obligations and commitments to make future payments under contracts including debt, finance leases and operating leases at December 31, 2013:

Scheduled payments due by period (Canadian dollars in thousands)	-	j term ebt	Capital leases	Operating leases	Total
2014 (year ended September 30)		811	54	683	1,548
2015		2,511	22	767	3,300
2016		905	11	649	1,565
2017		3,617	6	627	4,250
2018		405	=	626	1,031
Thereafter		1,195	-	917	2,112
	\$	9,444	\$ 93	\$ 4,269	\$ 13,806

PROVISIONS AND CONTINGENT LIABILITIES

(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:

	De	cemper 31 Se	eptember 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

(b) Forgivable Loan

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

If the loan was deemed repayable at December 31, 2013, the estimated amount owing, including accrued interest would be \$303,858. Management does not anticipate any repayment will be required and as such no provision has been recorded.

SHARE INFORMATION

At December 31, 2013 the Company had issued 98,986,609 common shares and 6,423,146 share options that can be exercised when vested to obtain an equivalent number of common shares. No shares or share options were issued during the quarter ended December 31, 2013.



RELATED PARTY TRANSACTIONS

Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Significant related party transactions are reviewed and approved by the Audit Committee of the Board. The following is a summary of related party transactions during the quarter ended December 31, 2013:

- The Company recorded rent expense of \$65,520 for the quarter ended December 31, 2013 (2012 \$57,960) for rental of premises from LB2P a company controlled by the Company's President & CEO. Effective October 1, 2011 the Company entered into a 6 year lease, with a 4 year renewal option, with LB2P for 100% of the premises available for lease at 18 Prescott Street, St. John's, NL. The lease includes an initial net lease rate for two years with escalation provisions periodically thereafter.
- The Company recognized an expense of \$158,983 for the quarter ended December 31, 2013 (2012 \$156,350) for fees, salaries and benefits to its key management personnel for services rendered. Key management is considered to be members of the Board of Directors, the President & Chief Executive Officer and the Chief Financial Officer. The Executive Chairman's fees are paid to a corporation under his control.
- The Company recognized an expense of \$29,600 for the quarter ended December 31, 2013 (2012 \$57,415) 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. 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 the Condensed Consolidated Interim Financial Statements. The Company has identified the following policies where critical judgments, estimates and assumptions are made and where actual results could be materially different.

Significant management judgements

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

(a) Revenue recognition

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

(b) Income taxes

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

The Company has recorded a deferred tax asset in the Company's financial statements for the period ended December 31, 2013. Management considers that it is more likely than not that these tax assets will be realized.



The ultimate realization of these assets is dependent upon the Company's ability to generate sufficient taxable income to offset the tax losses carried forward as well as the reversal of the differences between the carrying amount of items on the statement of financial position and their corresponding tax basis. If future circumstances indicate that it is no longer probable that these tax assets will be realized, the carrying value of the tax asset will be reduced, resulting in a charge against income and a reduction of equity.

(c) Government assistance

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

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

(d) Development costs

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

Estimation uncertainty

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

(a) Fair value of provisions

Management uses valuation techniques in determining the fair values of its provisions related to conditionally repayable grants. Significant estimates include the amount and timing of future cash flows and discount rates used in measurement of the fair value.

(b) Fair value of financial liabilities

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

(c) Impairment of non-financial assets

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

(d) Revenue recognition

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

(e) Share-based compensation

Management has made certain estimates and assumptions when calculating the fair value of share options. The significant assumptions include estimates of expected volatility, expected life and expected risk-free rate of return.



Management also makes certain assumptions with respect to the number of options expected to vest. Changes in these assumptions may result in a material change to share-based compensation expense.

RISKS

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

Customer risk

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

The Company's business strategy includes plans to diversify sources of revenue by expanding its product and service offerings in the Bluedrop Training and Simulation business and by expanding its sales channels and courseware content portfolio for the Bluedrop Learning Networks business.

Credit risk

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

The Company's maximum exposure to credit risk, with respect to accounts receivable and unbilled work in progress corresponds to the carrying value. At December 31, 2013 approximately 53% of trade receivables were due from two customers (September 30, 2013 – 58% from one customer). In accordance with contract terms, the Company bills certain customers in advance of the completion of work and records such billings as deferred revenue.

An allowance for doubtful accounts is established at each balance sheet date based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The allowance for doubtful trade accounts receivable at December 31, 2013 was \$Nil (September 30, 2013 - \$Nil). At December 31, 2013 the Company's trade accounts receivable included amounts over 90 days old totaling \$95,394 (September 30, 2013 - \$256,434) which were not considered to be impaired and therefore not included in the allowance for doubtful accounts.

Recruitment and retention risks

Bluedrop's continued growth and success is largely dependent on the experience, abilities and dedication of its management and technical personnel. As the Company expands in areas and activities requiring additional expertise, it will require additional management and technical personnel. The market is tight and competition is intense for highly-skilled management, technical, research and development people and other employees to support the Company's growth. Loss of the services of any of its key officers or employees, or failure to recruit additional key executive and technical personnel may adversely affect the Company's ability to promptly satisfy its customer needs and may therefore impede the Company's growth objectives.

There can be no assurances that Bluedrop can retain its current key officers and employees or attract and retain additional key employees to support the Company's growth. The loss of certain key employees could have a significant impact on the Company's business, results of operations and financial condition.

OUTLOOK

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



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

The Bluedrop Learning Networks business will continue to invest in its $CoursePark^{TM}$ platform. Approaching 2014, the Company will continue to develop opportunities in its current Canadian market, while aiming for growth in international markets.

