

# **Bluedrop Performance Learning Inc.**

Condensed Interim Financial Statements  
Unaudited

**Nine months ended June 30, 2013**

## **Notice of No Auditor Review of Interim Financial Statements**

The accompanying unaudited condensed 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 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.

Statements of Financial Position

Unaudited

June 30 2013  
September 30 2012

In Canadian dollars

### ASSETS

#### Current assets

Cash and cash equivalents	\$	139,180	15,135
Accounts receivable (Note 5)		3,562,053	4,168,197
Work in progress		481,507	490,201
Income taxes recoverable		-	16,131
Prepaid expenses		312,013	401,298
Due from related parties (Note 6)		238,679	50,000
		4,733,432	5,140,962
Due from related parties (Note 6)		50,227	169,816
Deferred tax assets		1,515,607	1,384,657
Goodwill and other intangible assets (Note 7)		3,438,952	3,641,517
Property and equipment (Note 8)		1,140,195	1,553,096
	\$	10,878,413	11,890,048

### LIABILITIES AND EQUITY

#### Current liabilities

Bank indebtedness (Note 9)	\$	-	419,051
Accounts payable and accruals		1,494,171	1,685,330
Deferred revenue		1,352,135	1,679,834
Current portion of obligations under finance leases		94,708	96,995
Current portion of long term debt (Note 10)		393,520	192,534
		3,334,534	4,073,744
Obligations under finance leases		48,313	101,482
Long term debt (Note 10)		2,161,837	1,903,803
Provisions (Note 11)		477,158	469,903
		6,021,842	6,548,932
Equity			
Share capital (Note 12)		5,053,021	5,053,021
Share option reserve (Note 12)		824,764	536,675
Deficit		(1,021,214)	(248,580)
		4,856,571	5,341,116
	\$	10,878,413	11,890,048

Approved on Behalf of the Board



Derrick H. Rowe  
Director



Emad Rizkalla  
Director

## Bluedrop Performance Learning Inc.

Statements of Comprehensive Income (Loss)

Unaudited

Nine months ended June 30

In Canadian dollars

	Three Months Ended June 30		Nine Months Ended June 30	
	2013	2012 (As Restated) (Note 3)	2013	2012 (As Restated) (Note 3)
<b>Revenue</b>				
Services revenue	\$ 2,813,012	2,251,407	\$ 7,456,506	6,552,743
Product sales	261,245	1,097,617	1,217,605	1,289,223
	3,074,257	3,349,024	8,674,111	7,841,966
Direct costs	1,479,095	1,688,751	4,545,184	4,077,043
<b>Gross profit</b>	1,595,162	1,660,273	4,128,927	3,764,923
<b>Expenses</b>				
Sales and marketing	741,170	362,573	2,036,807	1,076,679
General and administration	1,106,548	783,047	2,922,931	2,479,523
Government assistance (Note 13)	(306,947)	(102,989)	(1,095,492)	(1,005,281)
Share-based compensation (Note 12)	5,969	113,901	288,089	297,967
Finance costs (Note 14)	88,955	54,685	263,713	131,167
Depreciation and amortization	205,680	171,180	616,463	394,559
	1,841,375	1,382,397	5,032,511	3,374,614
<b>Earnings (loss) before income taxes</b>	(246,213)	277,876	(903,584)	390,309
Income tax expense (recovery)				
Current	-	-	-	97,000
Deferred	(62,901)	138,673	(130,950)	130,018
	(62,901)	138,673	(130,950)	227,018
<b>Net earnings (loss) and comprehensive income (loss)</b>	\$ (183,312)	139,203	\$ (772,634)	163,291
<b>Net earnings (loss) per share</b>				
Basic	(0.0019)	0.0014	(0.0078)	0.0018
Diluted	(0.0019)	0.0014	(0.0078)	0.0018
<b>Weighted average number of shares outstanding</b>				
Basic	98,986,609	98,986,609	98,986,609	91,640,653
Diluted	98,986,609	98,986,609	98,986,609	91,640,653

## Bluedrop Performance Learning Inc.

Statements of Changes in Equity

Unaudited

Nine months ended June 30

In Canadian dollars

	(Blue Drop) Class A Common Shares	(Blue Drop) Class C Common Shares	Ordinary Common Shares		Share Capital	Share Option Reserve	Retained Earnings (Deficit)	Total
<b>October 1, 2011</b>	5,127,451	187,605	-	\$	80,309	439,635	(492,150)	27,794
Share-based compensation	-	-	-		-	297,967	-	297,967
Earnings and comprehensive income	-	-	-		-	-	163,291	163,291
Exercise of share options	-	377,369	-		609,451	(439,635)	-	169,816
Issuance of common shares on reverse takeover (Note 4)	(5,127,451)	(564,974)	86,866,408		4,363,261	34,241	-	4,397,502
Common shares outstanding prior to reverse takeover	-	-	12,120,201		-	-	-	-
<b>June 30, 2012</b>	-	-	98,986,609	\$	5,053,021	332,208	(328,859)	5,056,370
Share-based compensation	-	-	-		-	204,467	-	204,467
Earnings and comprehensive income	-	-	-		-	-	80,279	80,279
<b>September 30, 2012</b>	-	-	98,986,609	\$	5,053,021	536,675	(248,580)	5,341,116
Share-based compensation	-	-	-		-	288,089	-	288,089
Earnings and comprehensive income	-	-	-		-	-	(772,634)	(772,634)
<b>June 30, 2013</b>	-	-	98,986,609	\$	5,053,021	824,764	(1,021,214)	4,856,571

## Bluedrop Performance Learning Inc.

Statements of Cash Flows

Unaudited

Nine months ended June 30

2013

2012

In Canadian dollars

(As Restated)  
(Note 3)

### Increase (decrease) in cash and cash equivalents

#### Operating activities

Net earnings (loss) for the period	\$	(772,634)	163,291
Items not affecting cash:			
Share-based compensation		288,089	297,967
Depreciation and amortization		616,463	394,559
Non-cash government assistance		(321,339)	(231,907)
Revaluation of provisions		16,250	1,062
Finance costs		263,713	131,167
Deferred taxes		(130,950)	130,018
Interest paid		(48,107)	(37,618)
		(88,515)	848,539
Changes in non-cash working capital (Note 15)		(179,246)	(1,180,773)
		(267,761)	(332,234)

#### Investing activities

Advances to related parties		(69,090)	(1,096)
Net cash flow on business combinations (Note 4)		-	263,277
Purchase of property and equipment, net of government assistance		256,069	(880,875)
Purchase of intangible assets, net of government assistance		(219,555)	(268,517)
		(32,576)	(887,211)
Changes in non-cash working capital (Note 15)		399,577	(695,077)
		367,001	(1,582,288)

#### Financing activities

(Decrease) increase in operating loans		(311,000)	200,000
Repayment of obligations under finance leases		(92,967)	(36,815)
Advances of long term debt		752,712	2,210,091
Repayment of long term debt		(103,150)	(17,926)
Repayment of royalties		(58,335)	(11,160)
Release of escrow - Class D common shares		-	125,000
Repurchase of Class D common shares		-	(500,000)
Interest paid		(54,404)	(8,521)
		132,856	1,960,669

#### Increase in cash and cash equivalents

Cash and cash equivalents, beginning of period		(92,916)	(41,508)
<b>Cash and cash equivalents, end of period</b>	\$	139,180	4,639

#### Cash and cash equivalents consists of:

Cash on hand and in bank	\$	139,180	44,941
Bank overdraft		-	(40,302)
	\$	139,180	4,639

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## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

**Nine months ended June 30, 2013**

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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*<sup>™</sup>, a cloud-based learning management solution and *Campus*<sup>™</sup>, 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 August 27, 2013.

### 2. Basis of presentation

These condensed 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 *Interim Financial Reporting* using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board (IASB). These condensed 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, 2012. The condensed 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, 2012.

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 set out below have been applied consistently in the preparation of the financial statements of all periods presented.

### 3. Restatement

Upon preparation of the financial statements for the year ended September 30, 2012 certain transactions were recognized that had an impact on the previous interim financial statements as filed. A description of these transactions is provided below:

#### (a) Provision

Under IFRS a provision is recognized on the basis of a legal or constructive obligation arising from a past event if there is probable outflow of resources and the amount can be estimated reliably. This is a lower recognition threshold than was required under Canadian Generally Accepted Accounting Principles (GAAP). On the adoption of IFRS, the Company was therefore required to recognize a provision for the repayment of royalties related to the Atlantic Innovation Fund (AIF) (Note 11).

#### (b) Development costs

During the fourth quarter ended September 30, 2012 Management undertook an in depth review of the accounting for development costs and determined that the majority of the development costs incurred during the year met the accounting criteria for deferral. Such costs have been included in intangible assets, net of related government assistance. Amounts that did not meet the criteria for deferral have been reclassified to other expense categories.

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Nine months ended June 30, 2013**In Canadian dollars

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**3. Restatement** (continued)

## (c) Business combination

At the date of the Reverse takeover (Note 4), January 26, 2012 the Company recognized a provisional purchase price equation related to the business combination. Under IFRS, the Company had up to twelve months from the transaction date to complete a review of facts and circumstances and to adjust the provisional accounting for the allocation of the excess of the fair value of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed in the business combination. The Company has retroactively adjusted the comparative figures to reflect the final allocation.

## (d) Below-market interest rate loans

During the fiscal year ended September 30, 2012 the Company received below market interest rate loans from government agencies for operating expenses and capital assets. Under IFRS, the Company has recognized the below market interest rate loans at amortized cost using the effective interest rate method. The difference between the fair value at inception and the loan proceeds received is recorded as government assistance in the statement of comprehensive income (loss).

The impact of the above restatements on previously reported figures is as follows:

	<b>June 30 2012</b>				<b>Below-Market Interest Rate</b>	<b>June 30</b>
	<b>Previously Reported<sup>(1)</sup></b>	<b>Provision</b>	<b>Development Costs</b>	<b>Business Combination</b>	<b>Loans</b>	<b>2012 Restated</b>
<b>Statement of financial position</b>						
Prepaid expenses	253,046	-	-	76,035	-	329,081
Deferred tax assets and liabilities	1,653,000	132,982	-	(402,000)	-	1,383,982
Goodwill and other intangible assets	2,941,775	-	220,032	250,130	-	3,411,937
Property and equipment	1,467,648	-	-	-	(209,893)	1,257,755
Long term debt	2,267,204	-	-	-	(417,799)	1,849,405
Provision	-	458,426	-	-	-	458,426
Share option reserve	297,967	-	-	34,241	-	332,208
Retained earnings	(321,277)	(325,444)	220,032	(110,076)	207,906	(328,859)
<b>Statement of comprehensive income (loss)</b>						
Direct costs	4,093,293	(10,098)	(6,152)	-	-	4,077,043
Sales and marketing	1,043,740	-	32,939	-	-	1,076,679
General and administration	2,435,239	-	44,284	-	-	2,479,523
Development costs	1,010,093	-	(1,010,093)	-	-	-
Government assistance	(1,468,451)	-	695,077	-	(231,907)	(1,005,281)
Finance costs	59,088	44,520	-	-	27,559	131,167
Depreciation and amortization	264,128	-	23,913	110,076	(3,558)	394,559
Deferred income tax expense	140,000	(9,982)	-	-	-	130,018

(1) Previously reported figures have been updated to reflect presentation changes as identified in Note 19.



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## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

**Nine months ended June 30, 2013**

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In Canadian dollars

### 4. Business combinations

(a) Reverse takeover

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

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

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

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

***Value of assets acquired and liabilities assumed***

Cash	\$	263,277
Accounts receivable		261,785
Other current assets		91,988
Deferred tax asset		1,526,000
Property and equipment		38,317
Intangible assets		1,488,060
Goodwill		1,415,007
Current liabilities		(686,932)
	\$	4,397,502

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### 5. Accounts receivable

		<b>June 30</b>	<b>September 30</b>
		<b>2013</b>	<b>2012</b>
Trade	\$	2,542,157	2,551,857
Government assistance		981,564	1,526,512
Other		38,332	89,828
	\$	3,562,053	4,168,197

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## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

Nine months ended June 30, 2013

In Canadian dollars

### 6. Due from related parties

		June 30 2013	September 30 2012
LB2P Holdings Inc.	\$	50,000	50,000
Shareholder loan		69,090	-
Employees - share purchase loans		169,816	169,816
	\$	288,906	219,816

LB2P Holdings Inc. (LB2P) is controlled by the Company's beneficial controlling shareholder. The balance due is 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 (Note 12(f)). 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.

### 7. Goodwill and other intangible assets

	Computer software	Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
<b>Cost</b>							
October 1, 2011	\$ 197,951	265,500	154,161	-	-	-	617,612
Additions	34,708	-	28,955	1,462,791	-	-	1,526,454
Government assistance	-	-	-	(898,738)	-	-	(898,738)
Reverse takeover (Note 4)	-	-	-	903,060	585,000	1,415,007	2,903,067
September 30, 2012	\$ 232,659	265,500	183,116	1,467,113	585,000	1,415,007	4,148,395
Additions	16,751	-	30,180	866,251	-	-	913,182
Government assistance	-	-	-	(693,627)	-	-	(693,627)
June 30, 2013	\$ 249,410	265,500	213,296	1,639,737	585,000	1,415,007	4,367,950

#### Accumulated amortization

October 1, 2011	\$ 79,837	16,911	5,346	-	-	-	102,094
Amortization	69,913	67,643	56,213	155,301	55,714	-	404,784
September 30, 2012	\$ 149,750	84,554	61,559	155,301	55,714	-	506,878
Amortization	31,926	50,732	47,474	229,309	62,679	-	422,120
June 30, 2013	\$ 181,676	135,286	109,033	384,610	118,393	-	928,998

#### Carrying values

October 1, 2011	\$ 118,114	248,589	148,815	-	-	-	515,518
September 30, 2012	\$ 82,909	180,946	121,557	1,311,812	529,286	1,415,007	3,641,517
June 30, 2013	\$ 67,734	130,214	104,263	1,255,127	466,607	1,415,007	3,438,952

#### Carrying values of assets subject to finance leases

October 1, 2011	\$ 1,174	-	-	-	-	-	1,174
September 30, 2012	\$ 587	-	-	-	-	-	587
June 30, 2013	\$ 367	-	-	-	-	-	367

Included in Technology are \$866,251 of internally generated additions for the nine months ended June 30, 2013.

## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

Nine months ended June 30, 2013

In Canadian dollars

### 8. Property and equipment

	Computer equipment	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
<b>Cost</b>					
October 1, 2011	\$ 578,742	200,441	113,640	137,196	1,030,019
Additions	63,691	1,053,329	-	129,459	1,246,479
Additions subject to finance leases	35,263	145,654	-	-	180,917
Government assistance	(24,840)	(231,468)	-	-	(256,308)
Reverse takeover (Note 4)	12,907	17,471	-	7,939	38,317
September 30, 2012	\$ 665,763	1,185,427	113,640	274,594	2,239,424
Additions	20,617	39,204	-	-	59,821
Additions subject to finance leases	37,511	-	-	-	37,511
Government assistance	-	(315,890)	-	-	(315,890)
June 30, 2013	\$ 723,891	908,741	113,640	274,594	2,020,866
<b>Accumulated depreciation</b>					
October 1, 2011	\$ 331,094	96,136	48,967	45,495	521,692
Depreciation	91,070	39,498	19,402	14,666	164,636
September 30, 2012	\$ 422,164	135,634	68,369	60,161	686,328
Depreciation	62,155	94,561	10,186	27,441	194,343
June 30, 2013	\$ 484,319	230,195	78,555	87,602	880,671
<b>Carrying values</b>					
October 1, 2011	\$ 247,648	104,305	64,673	91,701	508,327
September 30, 2012	\$ 243,599	1,049,793	45,271	214,433	1,553,096
June 30, 2013	\$ 239,572	678,546	35,085	186,992	1,140,195
<b>Carrying values of assets subject to finance leases</b>					
October 1, 2011	\$ 121,443	16,432	-	-	137,875
September 30, 2012	\$ 105,915	122,780	-	-	228,695
June 30, 2013	\$ 114,098	104,363	-	-	218,461

### 9. Operating loans

The Company has a 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. 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 balance as at June 30, 2013 was repaid in full (September 30, 2012 – \$45,000).

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

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Nine months ended June 30, 2013**In Canadian dollars

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**10. Long term debt**

	<b>Interest</b>		<b>June 30</b>	<b>September 30</b>
	<b>rate</b>	<b>Maturity</b>	<b>2013</b>	<b>2012</b>
Volkswagon Finance	4.40%	2010-2015	\$ 28,974	39,657
Toyota Financial Services	1.90%	2009-2013	3,526	11,380
Province of Newfoundland and Labrador	4.75%	2016-2019	403,480	465,942
Atlantic Canada Oportunities Agency	-	2012-2017	345,078	392,208
Government of Nova Scotia	5.00%	2013-2021	1,180,013	838,845
Atlantic Canada Oportunities Agency	-	2013-2018	359,517	127,164
Invest New Brunswick	-	2013-2014	234,769	221,141
			<u>2,555,357</u>	<u>2,096,337</u>
less: current portion			(393,520)	(192,534)
Total long term debt			\$ 2,161,837	1,903,803

Certain long term debt facilities provided by government entities have been provided at interest rates below market. At inception, these loans have been recorded at their estimated fair values with the discount treated as government assistance. For the nine months ended June 30, 2013, \$183,215 (June 30, 2012 - \$231,907) has been included in income and \$138,124 (June 30, 2012 - \$213,450) has been included as a reduction in the cost of property and equipment related to the discount on these loans.

During the nine months ended June 30, 2013, Bluedrop entered into the following long term debt arrangements:

(i) Atlantic Canadian Opportunities Agency (ACOA)

During the period, the Company received \$290,788 in connection with a \$469,875 funding contribution from ACOA to assist with the establishment and operation of the Bluedrop Training and Simulation Centre (BTSC). The unsecured, non-interest bearing loan is repayable in monthly instalments of \$7,832 commencing on October 1, 2013.

(ii) Province of Newfoundland and Labrador

In February 2013, the Province of Newfoundland and Labrador amended the terms of the \$500,000 loan arrangement with the Company. Repayment terms have been extended from 48 months beginning January 2013 to 48 months beginning January 2016. The loan is non-interest bearing until January 2014 after which interest will accrue at a rate of 4.75% per annum.

(i) Government of Nova Scotia

In April 2013, the Company received a second instalment payment in the amount of \$461,924 in connection with a \$1,700,000 funding contribution from the Government of Nova Scotia to assist with the establishment and operation of the BTSC. The loan bears interest at 5% per annum, interest only payable until June 1, 2013, at which time the loan is repayable in 107 monthly instalments of \$9,616 plus interest commencing on October 1, 2013 and a final lump sum payment of \$471,540 plus interest on May 1, 2022.

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Nine months ended June 30, 2013**In Canadian dollars

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**11. Provisions**

## (a) Conditionally-repayable grants

To June 30, 2013 the Company had recognized AIF contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and AIF contributions of \$1,536,598 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:

	<b>June 30</b>	<b>September 30</b>
	<b>2013</b>	<b>2012</b>
Opening balance	\$ 469,903	424,004
Accretion	49,340	59,361
Royalties paid or payable	(58,335)	(14,878)
Revaluation of provision	16,250	1,416
	<b>\$ 477,158</b>	<b>469,903</b>

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**12. Share capital**

## (a) Authorized

Unlimited common shares without par value

## (b) Common shares issued and outstanding

## (i) Blue Drop Inc. prior to reverse takeover:

	<b>Number of</b>	<b>Share</b>
	<b>Shares</b>	<b>capital</b>
Blue Drop Inc. - Class A common shares		
Issued and outstanding at October 1, 2011	5,127,451	\$ 80,301
Issued and outstanding at January 26, 2012	5,127,451	80,301
Blue Drop Inc. - Class C common shares		
Issued and outstanding at October 1, 2011	187,605	8
Shares issued upon exercise of options	377,369	609,451
Issued and outstanding at January 26, 2012	564,974	609,459
Issued and outstanding at January 26, 2012	5,692,425	\$ 689,760

## (ii) Serebra Learning Corporation prior to reverse takeover:

In connection with the reverse-takeover, Serebra Learning Corporation effected a consolidation of its common shares resulting in one common share for every four pre-consolidation shares. The share consolidation has been applied retrospectively to the balances of outstanding common shares, share purchase warrants and share options.

	<b>Number of</b>	<b>Share</b>
	<b>Shares</b>	<b>capital</b>
Issued and outstanding at October 1, 2011	9,669,004	\$ 11,663,735
Share proceeds received	-	13,500
Private placement, net of share issue costs	1,576,197	360,842
Issued as compensation to directors, officers, employees and consultants	875,000	315,000
Issued and outstanding at January 26, 2012	12,120,201	\$ 12,353,077

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Nine months ended June 30, 2013**In Canadian dollars

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**12. Share capital** (continued)

(b) Common shares issued and outstanding (continued)

(iii) Bluedrop Performance Learning Inc. subsequent to reverse takeover:

	<b>Number of Shares</b>	<b>Share capital</b>
Blue Drop Inc. shares prior to acquisition	5,692,425	\$ 689,760
Elimination of Blue Drop Inc. share capital	(5,692,425)	-
Issuance of common shares on reverse takeover (Note 4)	86,866,408	4,363,261
Outstanding shares of Serebra brought forward	12,120,201	-
Issued and outstanding at January 26, 2012	98,986,609	5,053,021
Issued and outstanding at September 30, 2012 and June 30, 2013	98,986,609	\$ 5,053,021

(c) Share purchase warrants (adjusted for share consolidation)

(i) Serebra Learning Corporation prior to reverse takeover:

	<b>Number of warrants</b>	<b>Exercise price per share</b>
Outstanding at October 1, 2011	2,680,933	\$0.60
Expired	(1,785,933)	\$0.60
Outstanding at January 26, 2012	895,000	\$0.60

(ii) Bluedrop Performance Learning Inc. subsequent to reverse takeover:

	<b>Number of warrants</b>	<b>Exercise price per share</b>
Outstanding share purchase warrants of Serebra brought forward	895,000	\$0.60
Expired	(895,000)	\$0.60
Outstanding at September 30, 2012 and June 30, 2013	-	-

(d) Share options (2010 Stock Option Plan) (adjusted for share consolidation)

(i) Serebra Learning Corporation prior to reverse takeover:

	<b>Number of options</b>	<b>Exercise price per share</b>
Outstanding at October 1, 2011	866,250	\$0.40
Granted	277,114	\$0.40
Outstanding at January 26, 2012	1,143,364	\$0.40

(ii) Bluedrop Performance Learning Inc. subsequent to reverse takeover:

	<b>Number of options</b>	<b>Exercise price per share</b>
Share options of Serebra brought forward	1,143,364	\$0.40
Outstanding at September 30, 2012	1,143,364	\$0.40
Expired	(862,239)	\$0.40
Outstanding and exercisable at June 30, 2013	281,125	\$0.40

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

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Nine months ended June 30, 2013**In Canadian dollars

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**12. Share capital** (continued)

(e) Share options (2011 Stock Option Plan)

	<b>Number of options</b>	<b>Exercise price per share</b>
Outstanding at October 1, 2011	-	-
Granted, March 8, 2012	6,982,110	\$0.26
Granted, June 14, 2012	939,661	\$0.15
Granted, Sept 12, 2012	450,000	\$0.15
Forfeitures	(543,375)	\$0.26
Expired	(60,375)	\$0.26
<u>Outstanding at September 30, 2012</u>	<u>7,768,021</u>	<u>\$0.24</u>
Forfeitures	(1,318,875)	\$0.19
Expired	(6,900)	\$0.26
<u>Outstanding at June 30, 2013</u>	<u>6,442,246</u>	<u>\$0.25</u>
<u>Exercisable at June 30, 2013</u>	<u>2,109,706</u>	<u>\$0.25</u>

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. During the year ended September 31, 2012, the Company granted 8,371,771 options to certain directors, officers and employees of the Company under the plan. These options expire five years after the date of grant and vest over a three year period as follows: 10% at time of grant; 20% on the first anniversary; 20% on the second anniversary and 50% on the third anniversary.

The Company recorded \$288,089 of share-based compensation expense in the nine months ended June 30, 2013 relating to the 2011 Stock Option Plan (June 30, 2012 - \$297,967). The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for options granted:

Risk free interest rate	1.31%
Expected dividend yield	0%
Share price volatility	109%
Expected life	3.6 years
Average fair value of options granted	\$0.1687

(f) Blue Drop share options

On March 21, 2011 Blue Drop granted options to purchase 377,369 Class C non-voting common shares at an exercise price of \$0.45 per Class C common share. The options were immediately exercisable by the grantee, with expiry five years after the effective date of the option grant, unless terminated in accordance with the associated Employee Stock Option Agreement. Blue Drop recorded \$439,635 as share-based compensation expense on the grant date, with a corresponding increase in share based option reserve.

On January 11, 2012 the options were exercised for proceeds of \$169,816, resulting in a reduction of \$439,635 in share option reserve and an increase in share capital of \$609,451. There were no Blue Drop share options outstanding at the time of the reverse takeover.

**13. Government assistance**

Government assistance includes contributions from ACOA's Atlantic Innovation Fund (AIF), the National Research Council Canada Industrial Research Assistance Program (NRC-IRAP), Invest New Brunswick, Scientific Research and Experimental Development credits and Nova Scotia Digital Media Tax Credits. In addition, financial liability discounts as a result of government loans at below-market interest rates are included in government assistance.

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Nine months ended June 30, 2013**In Canadian dollars

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**14. Finance costs**

	Three months ended June 30		Nine months ended June 30	
	2013	2012	2013	2012
Interest on long term debt	\$ 16,563	6,500	54,231	14,836
Interest on finance lease obligations	2,151	3,132	7,010	6,634
Short term interest and bank charges	10,987	13,196	40,840	34,462
Accretion of long term debt	42,234	15,891	105,025	27,560
Accretion of provisions	16,446	14,839	49,340	44,520
Other financing costs	574	1,127	7,267	3,155
<b>Total finance costs</b>	<b>\$ 88,955</b>	<b>54,685</b>	<b>263,713</b>	<b>131,167</b>

**15. Changes in non-cash working capital**

	2013	2012
Accounts receivable	\$ 606,144	(1,930,537)
Work in progress	8,694	92,588
Income taxes recoverable	16,131	97,000
Prepaid expenses	89,285	(123,434)
Accounts payable and accruals	(172,224)	722,729
Deferred revenue	(327,699)	(734,196)
	<b>\$ 220,331</b>	<b>(1,875,850)</b>
Changes in non-cash working capital related to:		
Operating activities	(179,246)	(1,180,773)
Investing activities	399,577	(695,077)
	<b>\$ 220,331</b>	<b>(1,875,850)</b>

**16. Related party transactions**

	Three months ended June 30		Nine months ended June 30	
	2013	2012	2013	2012
Rent expense	\$ 65,520	57,960	181,440	173,880
Fees, salaries and benefits for key management personnel	153,869	160,900	463,569	368,600
Share based compensation for key management personnel	8,123	41,841	117,318	120,059
Termination benefits for key management personnel	30,000	-	30,000	-

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 (commencing January 26, 2012). The Executive Chairman's fees are paid to a corporation under his control.

In addition, the Company has recorded a receivable of \$50,000 (Note 6) with LB2P and has entered into a joint and several mortgage arrangement with LB2P.



## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

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Nine months ended June 30, 2013

In Canadian dollars

### 17. 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 June 30		Nine months ended June 30	
	2013	2012	2013	2012
Salaries and employee benefits	\$ 2,305,393	1,765,222	6,436,217	5,028,674
Materials, services and supplies	325,691	541,171	1,037,987	773,716
Travel and living	131,307	152,182	404,671	411,067
Occupancy	155,108	131,541	497,328	364,842
Professional fees	127,466	67,760	323,544	506,210
Other costs	281,848	176,495	805,175	548,736
Total expenses classified by nature	\$ 3,326,813	2,834,371	9,504,922	7,633,245

### 18. Segment reporting

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

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

The Defence & Aerospace business 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:

	Nine months ended June 30, 2013			
	CoursePark Learning Services	Defence and Aerospace	Corporate and Other	Total
Revenue	\$ 2,761,506	5,912,605	-	8,674,111
Direct costs	1,056,080	3,489,104	-	4,545,184
<b>Gross profit</b>	<b>1,705,426</b>	<b>2,423,501</b>	<b>-</b>	<b>4,128,927</b>
<b>Expenses</b>				
Sales and marketing	1,197,793	829,812	9,202	2,036,807
General and administration	654,148	487,963	1,780,820	2,922,931
Government assistance	(591,405)	(379,836)	(124,251)	(1,095,492)
Share-based compensation	77,531	66,432	144,126	288,089
Finance costs	-	-	263,713	263,713
Depreciation and amortization	-	-	616,463	616,463
	1,338,067	1,004,371	2,690,073	5,032,511
<b>Earnings (loss) before income taxes</b>	<b>\$ 367,359</b>	<b>1,419,130</b>	<b>(2,690,073)</b>	<b>(903,584)</b>

## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

Nine months ended June 30, 2013

In Canadian dollars

### 18. Segment reporting (continued)

	Three months ended June 30, 2013			
	CoursePark Learning Services	Defence and Aerospace	Corporate and Other	Total
Revenue	\$ 979,719	2,094,538	-	3,074,257
Direct costs	303,849	1,175,246	-	1,479,095
<b>Gross profit</b>	<b>675,870</b>	<b>919,292</b>	<b>-</b>	<b>1,595,162</b>
<b>Expenses</b>				
Sales and marketing	532,805	208,257	108	741,170
General and administration	257,112	143,594	705,842	1,106,548
Government assistance	(199,030)	(90,840)	(17,077)	(306,947)
Share based compensation	4,180	(12,562)	14,351	5,969
Finance costs	-	-	88,955	88,955
Depreciation and amortization	-	-	205,680	205,680
	595,067	248,449	997,859	1,841,375
<b>Earnings (loss) before income taxes</b>	<b>\$ 80,803</b>	<b>670,843</b>	<b>(997,859)</b>	<b>(246,213)</b>

	Nine months ended June 30, 2012			
	CoursePark Learning Services	Defence and Aerospace	Corporate and Other	Total
Revenue	\$ 1,699,793	6,142,173	-	7,841,966
Direct costs	826,484	3,250,559	-	4,077,043
<b>Gross profit</b>	<b>873,309</b>	<b>2,891,614</b>	<b>-</b>	<b>3,764,923</b>
<b>Expenses</b>				
Sales and marketing	418,965	657,714	-	1,076,679
General and administration	257,830	276,471	1,945,222	2,479,523
Government assistance	(906,359)	(55,050)	(43,872)	(1,005,281)
Share based compensation	73,684	83,384	140,899	297,967
Finance costs	-	-	131,167	131,167
Depreciation and amortization	-	-	394,559	394,559
	(155,880)	962,519	2,567,975	3,374,614
<b>Earnings (loss) before income taxes</b>	<b>\$ 1,029,189</b>	<b>1,929,095</b>	<b>(2,567,975)</b>	<b>390,309</b>

	Three months ended June 30, 2012			
	CoursePark Learning Services	Defence and Aerospace	Corporate and Other	Total
Revenue	\$ 511,421	2,837,603	-	3,349,024
Direct costs	243,856	1,444,895	-	1,688,751
<b>Gross profit</b>	<b>267,565</b>	<b>1,392,708</b>	<b>-</b>	<b>1,660,273</b>
<b>Expenses</b>				
Sales and marketing	137,849	224,724	-	362,573
General and administration	68,314	114,269	600,464	783,047
Government assistance	(822,939)	(55,050)	775,000	(102,989)
Share based compensation	25,827	31,846	56,228	113,901
Finance costs	-	-	54,685	54,685
Depreciation and amortization	-	-	171,180	171,180
	(590,949)	315,789	1,657,557	1,382,397
<b>Earnings (loss) before income taxes</b>	<b>\$ 858,514</b>	<b>1,076,919</b>	<b>(1,657,557)</b>	<b>277,876</b>

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Nine months ended June 30, 2013**

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In Canadian dollars

**19. Comparative figures**

Comparative figures have been reclassified to conform with the June 30, 2013 statement of comprehensive (loss) income presentation. Presentation changes include reclassification of certain costs previously classified as direct costs to sales and marketing and general and administration and reclassification of certain costs previously included in general and administration to finance costs. In addition, presentation also reflects segregation of revenue classifications and government assistance.