

# **Bluedrop Performance Learning Inc.**

Condensed Interim Financial Statements  
Unaudited

**Six months ended March 31, 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

March 31 September 30  
2013 2012

In Canadian dollars

### ASSETS

#### Current assets

Cash and cash equivalents	\$	7,468	15,135
Accounts receivable (Note 5)		3,917,619	4,168,197
Work in progress		1,722,288	490,201
Income taxes recoverable		16,131	16,131
Prepaid expenses		401,998	401,298
Due from related parties (Note 6)		64,762	50,000
		6,130,266	5,140,962
Due from related parties (Note 6)		169,816	169,816
Deferred tax assets		1,452,706	1,384,657
Goodwill and other intangible assets (Note 7)		3,433,043	3,641,517
Property and equipment (Note 8)		1,329,022	1,553,096
	\$	12,514,853	11,890,048

### LIABILITIES AND EQUITY

#### Current liabilities

Bank indebtedness (Note 9)	\$	1,494,266	419,051
Accounts payable and accruals		1,877,034	1,685,330
Deferred revenue		1,327,131	1,679,834
Current portion of obligations under finance leases		111,511	96,995
Current portion of long term debt (Note 10)		306,073	192,534
		5,116,015	4,073,744
Obligations under finance leases		63,452	101,482
Long term debt (Note 10)		1,833,284	1,903,803
Provisions (Note 11)		468,188	469,903
		7,480,939	6,548,932
Equity			
Share capital (Note 12)		5,053,021	5,053,021
Share option reserve (Note 12)		818,795	536,675
Deficit		(837,902)	(248,580)
		5,033,914	5,341,116
	\$	12,514,853	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

Six months ended March 31

In Canadian dollars

	Three Months Ended March 31		Six Months Ended March 31	
	2013	2012 (As Restated) (Note 3)	2013	2012 (As Restated) (Note 3)
<b>Revenue</b>				
Services revenue	\$ 2,448,374	2,271,579	\$ 4,643,494	4,301,336
Product sales	758,526	140,915	956,360	191,606
	3,206,900	2,412,494	5,599,854	4,492,942
Direct costs	1,637,313	1,319,054	3,066,089	2,388,292
<b>Gross profit</b>	1,569,587	1,093,440	2,533,765	2,104,650
<b>Expenses</b>				
Sales and marketing	689,430	385,033	1,295,637	714,106
General and administration	998,002	924,147	1,816,383	1,696,476
Government assistance (Note 13)	(346,497)	(180,923)	(788,545)	(902,292)
Share-based compensation (Note 12)	130,908	184,066	282,120	184,066
Finance costs (Note 14)	87,341	50,556	174,758	76,482
Depreciation and amortization	206,441	140,028	410,783	223,379
	1,765,625	1,502,907	3,191,136	1,992,217
<b>Earnings (loss) before income taxes</b>	(196,038)	(409,467)	(657,371)	112,433
Income tax expense (recovery)				
Current	-	(25,000)	-	97,000
Deferred	(14,516)	(72,328)	(68,049)	(8,655)
	(14,516)	(97,328)	(68,049)	88,345
<b>Net earnings (loss) and comprehensive income (loss)</b>	\$ (181,522)	(312,139)	\$ (589,322)	24,088
<b>Net earnings (loss) per share</b>				
Basic	(0.0018)	(0.0033)	(0.0060)	0.0003
Diluted	(0.0018)	(0.0033)	(0.0060)	0.0003
<b>Weighted average number of shares outstanding</b>				
Basic	98,986,609	94,980,036	98,986,609	87,967,675
Diluted	98,986,609	94,980,036	98,986,609	87,967,675

## Bluedrop Performance Learning Inc.

Statements of Changes in Equity

Unaudited

Six months ended March 31

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	-	-	-		-	184,066	-	184,066
Earnings and comprehensive income	-	-	-		-	-	24,088	24,088
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>March 31, 2012</b>	-	-	98,986,609	\$	5,053,021	218,307	(468,062)	4,803,266
Share-based compensation	-	-	-		-	318,368	-	318,368
Earnings and comprehensive income	-	-	-		-	-	219,482	219,482
<b>September 30, 2012</b>	-	-	98,986,609	\$	5,053,021	536,675	(248,580)	5,341,116
Share-based compensation	-	-	-		-	282,120	-	282,120
Earnings and comprehensive income	-	-	-		-	-	(589,322)	(589,322)
<b>March 31, 2013</b>	-	-	98,986,609	\$	5,053,021	818,795	(837,902)	5,033,914

## Bluedrop Performance Learning Inc.

Statements of Cash Flows

Unaudited

Six months ended March 31

2013

2012

In Canadian dollars

(As Restated)  
(Note 3)

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

#### Operating activities

Net earnings (loss) for the period	\$	(589,322)	24,088
Items not affecting cash:			
Share-based compensation		282,120	184,066
Depreciation and amortization		410,783	223,379
Non-cash government assistance		(152,375)	(176,857)
Revaluation of provisions		16,250	708
Finance costs		174,758	76,482
Deferred taxes		(68,049)	(8,655)
Interest paid		(36,547)	(23,295)
		37,618	299,916
Changes in non-cash working capital (Note 15)		(1,536,851)	(1,328,958)
		(1,499,233)	(1,029,042)

#### Investing activities

Advances to related parties		(14,762)	(1,096)
Net cash flow on business combinations (Note 4)		-	263,277
Purchase of property and equipment, net of government assistance		129,438	(52,598)
Purchase of intangible assets, net of government assistance		(70,162)	(231,949)
		44,514	(22,366)
Changes in non-cash working capital (Note 15)		412,579	(411,877)
		457,093	(434,243)

#### Financing activities

Increase in operating loans		1,064,000	925,000
Repayment of obligations under finance leases		(61,025)	(34,834)
Advances of long term debt		166,162	868,824
Repayment of long term debt		(62,303)	(11,901)
Repayment of royalties		(50,859)	(7,440)
Release of escrow - Class D common shares		-	125,000
Repurchase of Class D common shares		-	(500,000)
Interest paid		(32,717)	(4,811)
		1,023,258	1,359,838

### Decrease in cash and cash equivalents

		(18,882)	(103,447)
Cash and cash equivalents, beginning of period		(92,916)	(41,508)
<b>Cash and cash equivalents, end of period</b>	\$	<b>(111,798)</b>	<b>(144,955)</b>

### Cash and cash equivalents consists of:

Cash on hand and in bank	\$	7,468	16,756
Bank overdraft		(119,266)	(161,711)
	\$	(111,798)	(144,955)

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## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

Six Months Ended March 31, 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 defense and aerospace operations. The Company is domiciled in Canada and its registered office is located at 18 Prescott Street, St. John's, Newfoundland and Labrador, A1C 3S4.

These financial statements were approved and authorized for issuance by the Board of Directors on May 28, 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

**Six Months Ended March 31, 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).

	<b>March 31 2012 Previously Reported<sup>(1)</sup></b>	<b>Provision</b>	<b>Development Costs</b>	<b>Business Combination</b>	<b>Below-Market Interest Rate Loans</b>	<b>March 31 2012 Restated</b>
<b>Statement of financial position</b>						
Prepaid expenses	265,644	-	-	76,035	-	341,679
Deferred tax assets and liabilities	1,795,000	129,655	-	(402,000)	-	1,522,655
Goodwill and other intangible assets	2,989,368	-	196,728	316,175	-	3,502,271
Long term debt	931,962	-	-	-	(165,188)	766,774
Provision	-	446,952	-	-	-	446,952
Share option reserve	184,066	-	-	34,241	-	218,307
Retained earnings	(468,650)	(317,297)	196,728	(44,031)	165,188	(468,062)
<b>Statement of comprehensive income (loss)</b>						
Direct costs	2,403,778	(6,732)	(8,754)	-	-	2,388,292
Sales and marketing	693,752	-	20,354	-	-	714,106
General and administration	1,669,199	-	27,277	-	-	1,696,476
Development costs	658,131	-	(658,131)	-	-	-
Government assistance	(1,137,312)	-	411,877	-	(176,857)	(902,292)
Finance costs	35,133	29,680	-	-	11,669	76,482
Depreciation and amortization	168,699	-	10,649	44,031	-	223,379
Deferred income tax expense	(2,000)	(6,655)	-	-	-	(8,655)

(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

Six Months Ended March 31, 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

		March 31 2013	September 30 2012
Trade	\$	2,908,813	2,551,857
Government assistance		967,292	1,526,512
Other		41,514	89,828
	\$	3,917,619	4,168,197

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## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

Six Months Ended March 31, 2013

In Canadian dollars

### 6. Due from (to) related parties

		March 31 2013	September 30 2012
LB2P Holdings Inc.	\$	50,000	50,000
Shareholder loan		14,762	-
Employees - share purchase loans		169,816	169,816
	\$	234,578	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	1,429	-	9,440	551,920	-	-	562,789
Government assistance	-	-	-	(492,627)	-	-	(492,627)
March 31, 2013	\$ 234,088	265,500	192,556	1,526,406	585,000	1,415,007	4,218,557

#### 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	20,911	33,821	30,781	151,337	41,786	-	278,636
March 31, 2013	\$ 170,661	118,375	92,340	306,638	97,500	-	785,514

#### 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
March 31, 2013	\$ 63,427	147,125	100,216	1,219,768	487,500	1,415,007	3,433,043

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

October 1, 2011	\$ 1,174	-	-	-	-	-	1,174
September 30, 2012	\$ 587	-	-	-	-	-	587
March 31, 2013	\$ 440	-	-	-	-	-	440

Included in Technology are \$551,920 of internally generated additions for the six months ended March 31, 2013.

## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

Six Months Ended March 31, 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	15,523	32,805	-	-	48,328
Additions subject to finance leases	37,511	-	-	-	37,511
Government assistance	-	(177,766)	-	-	(177,766)
March 31, 2013	\$ 718,797	1,040,466	113,640	274,594	2,147,497
<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	39,816	67,246	6,791	18,294	132,147
March 31, 2013	\$ 461,980	202,880	75,160	78,455	818,475
<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
March 31, 2013	\$ 256,817	837,586	38,480	196,139	1,329,022
<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
March 31, 2013	\$ 124,855	110,502	-	-	235,357

### 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 March 31, 2013 was \$1,375,000 (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 March 31, 2013 the balance has been repaid in full. (September 30, 2012 - \$266,000).

## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

Six Months Ended March 31, 2013

In Canadian dollars

### 10. Long term debt

	Interest		March 31	September 30
	rate	Maturity	2013	2012
Volkswagon Finance	4.40%	2010-2015	\$ 32,574	39,657
Toyota Financial Services	1.90%	2009-2013	6,157	11,380
Province of Newfoundland and Labrador	4.75%	2013-2016	396,483	465,942
Atlantic Canada Oportunities Agency	-	2012-2017	361,181	392,208
Government of Nova Scotia	5.00%	2013-2021	855,161	838,845
Atlantic Canada Oportunities Agency	-	2013-2018	257,666	127,164
Invest New Brunswick	-	2013-2014	230,135	221,141
			2,139,357	2,096,337
less: current portion			(306,073)	(192,534)
Total long term debt			\$ 1,833,284	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 six months ended March 31, 2013, \$152,375 (March 31, 2012 - \$176,857) has been included in income related to the discount on these loans.

During the six months ended March 31, 2013, Bluedrop entered into the following long term debt arrangements:

(i) Atlantic Canadian Opportunities Agency (ACOA)

On December 28, 2012, the Company received a second instalment payment in the amount of \$166,162 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.

### 11. Provisions

(a) Conditionally-repayable grants

To March 31, 2013 the Company had recognized AIF contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and AIF contributions of \$1,248,598 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:

	March 31	September 30
	2013	2012
Opening balance	\$ 469,903	424,004
Accretion	32,894	59,361
Royalties paid or payable	(50,859)	(14,878)
Revaluation of provision	16,250	1,416
	\$ 468,188	469,903

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Six Months Ended March 31, 2013**In Canadian dollars

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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 Shares</b>	<b>Share 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 Shares</b>	<b>Share 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

(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 March 31, 2013	98,986,609	\$ 5,053,021

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**Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Six Months Ended March 31, 2013**In Canadian dollars

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**12. Share capital** (continued)

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

	<b>Number of warrants</b>	<b>Exercise price per share</b>
(i) Serebra Learning Corporation prior to reverse takeover:		
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 March 31, 2013	-	-

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

	<b>Number of options</b>	<b>Exercise price per share</b>
(i) Serebra Learning Corporation prior to reverse takeover:		
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 March 31, 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

**Six Months Ended March 31, 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	(62,100)	\$0.26
<u>Outstanding at March 31, 2013</u>	<u>7,705,921</u>	<u>\$0.24</u>
<u>Exercisable at March 31, 2013</u>	<u>2,033,844</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 \$282,120 of share-based compensation expense in the six months ended March 31, 2013 relating to the 2011 Stock Option Plan (March 31, 2012 - \$184,066). 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.

## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

Six Months Ended March 31, 2013

In Canadian dollars

### 14. Finance costs

	Three months ended March 31		Six months ended March 31	
	2013	2012	2013	2012
Interest on long term debt	\$ 18,271	6,551	37,668	8,336
Interest on finance lease obligations	2,140	2,158	4,859	3,502
Short term interest and bank charges	15,762	13,309	29,853	21,266
Accretion of long term debt	33,995	11,669	62,791	11,669
Accretion of provisions	16,447	14,841	32,894	29,681
Other financing costs	726	2,028	6,693	2,028
Total finance costs	\$ 87,341	50,556	174,758	76,482

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

	2013	2012
Accounts receivable	\$ 250,578	(1,863,406)
Work in progress	(1,232,087)	66,960
Income taxes recoverable	-	97,000
Prepaid expenses	(700)	(136,032)
Accounts payable and accruals	210,640	57,775
Deferred revenue	(352,703)	36,868
	\$ (1,124,272)	(1,740,835)
Changes in non-cash working capital related to:		
Operating activities	(1,536,851)	(1,328,958)
Investing activities	412,579	(411,877)
	\$ (1,124,272)	(1,740,835)

### 16. Related party transactions

	Three months ended March 31		Six months ended March 31	
	2013	2012	2013	2012
Rent expense	\$ 57,960	57,960	115,920	115,920
Fees, salaries and benefits for key management personnel	153,350	127,850	309,700	207,700
Share based compensation	51,780	78,218	109,195	78,218

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 preceding CFO was engaged on a fee for service basis from November 1, 2010 to September 30, 2011, at which time he became a full time employee of the Company. The Executive Chairman's fees are paid to a corporation under his control.

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

Unaudited

Six Months Ended March 31, 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 March 31		Six months ended March 31	
	2013	2012	2013	2012
Salaries and employee benefits	\$ 2,169,300	1,832,268	4,130,824	3,263,452
Materials, services and supplies	472,699	135,374	712,296	232,545
Travel and living	98,504	104,904	273,364	258,885
Occupancy	172,622	126,057	342,220	233,301
Professional fees	145,337	199,563	196,078	438,450
Other costs	266,283	230,068	523,327	372,241
Total expenses classified by nature	\$ 3,324,745	2,628,234	6,178,109	4,798,874

### 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:

	Six months ended March 31, 2013			
	CoursePark Learning Services	Defence and Aerospace	Corporate and Other	Total
Revenue	\$ 1,781,787	3,818,067	-	5,599,854
Direct costs	752,231	2,313,858	-	3,066,089
<b>Gross profit</b>	<b>1,029,556</b>	<b>1,504,209</b>	<b>-</b>	<b>2,533,765</b>
<b>Expenses</b>				
Sales and marketing	664,988	621,555	9,094	1,295,637
General and administration	397,036	344,369	1,074,978	1,816,383
Government assistance	(392,375)	(288,996)	(107,174)	(788,545)
Share-based compensation	73,351	78,994	129,775	282,120
Finance costs	-	-	174,758	174,758
Depreciation and amortization	-	-	410,783	410,783
	743,000	755,922	1,692,214	3,191,136
<b>Earnings (loss) before income taxes</b>	<b>\$ 286,556</b>	<b>748,287</b>	<b>(1,692,214)</b>	<b>(657,371)</b>

## Bluedrop Performance Learning Inc.

Notes to Condensed Interim Financial Statements

Unaudited

Six Months Ended March 31, 2013

In Canadian dollars

### 18. Segment reporting (continued)

	Three months ended March 31, 2013			
	CoursePark Learning Services	Defence and Aerospace	Corporate and Other	Total
Revenue	\$ 1,089,542	2,117,358	-	3,206,900
Direct costs	360,796	1,276,517	-	1,637,313
<b>Gross profit</b>	<b>728,746</b>	<b>840,841</b>	<b>-</b>	<b>1,569,587</b>
<b>Expenses</b>				
Sales and marketing	371,806	309,130	8,494	689,430
General and administration	209,980	181,238	606,784	998,002
Government assistance	(179,323)	(60,000)	(107,174)	(346,497)
Share based compensation	34,044	35,941	60,923	130,908
Finance costs	-	-	87,341	87,341
Depreciation and amortization	-	-	206,441	206,441
	436,507	466,309	862,809	1,765,625
<b>Earnings (loss) before income taxes</b>	<b>\$ 292,239</b>	<b>374,532</b>	<b>(862,809)</b>	<b>(196,038)</b>

	Six months ended March 31, 2012			
	CoursePark Learning Services	Defence and Aerospace	Corporate and Other	Total
Revenue	\$ 1,188,372	3,304,570	-	4,492,942
Direct costs	582,628	1,805,664	-	2,388,292
<b>Gross profit</b>	<b>605,744</b>	<b>1,498,906</b>	<b>-</b>	<b>2,104,650</b>
<b>Expenses</b>				
Sales and marketing	281,116	432,990	-	714,106
General and administration	189,516	162,202	1,344,758	1,696,476
Government assistance	(83,420)	-	(818,872)	(902,292)
Share based compensation	47,857	51,538	84,671	184,066
Finance costs	-	-	76,482	76,482
Depreciation and amortization	-	-	223,379	223,379
	435,069	646,730	910,418	1,992,217
<b>Earnings (loss) before income taxes</b>	<b>\$ 170,675</b>	<b>852,176</b>	<b>(910,418)</b>	<b>112,433</b>

	Three months ended March 31, 2012			
	CoursePark Learning Services	Defence and Aerospace	Corporate and Other	Total
Revenue	\$ 682,724	1,729,770	-	2,412,494
Direct costs	365,841	953,213	-	1,319,054
<b>Gross profit</b>	<b>316,883</b>	<b>776,557</b>	<b>-</b>	<b>1,093,440</b>
<b>Expenses</b>				
Sales and marketing	148,452	236,581	-	385,033
General and administration	106,228	102,038	715,881	924,147
Government assistance	594,077	-	(775,000)	(180,923)
Share based compensation	47,857	51,538	84,671	184,066
Finance costs	-	-	50,556	50,556
Depreciation and amortization	-	-	140,028	140,028
	896,614	390,157	216,136	1,502,907
<b>Earnings (loss) before income taxes</b>	<b>\$ (579,731)</b>	<b>386,400</b>	<b>(216,136)</b>	<b>(409,467)</b>

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## **Bluedrop Performance Learning Inc.**

Notes to Condensed Interim Financial Statements

Unaudited

**Six Months Ended March 31, 2013**

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In Canadian dollars

### **19. Comparative figures**

Comparative figures have been reclassified to conform with the March 31, 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.

### **20. Subsequent event**

(i) Atlantic Canadian Opportunities Agency (ACOA)

In April 2013, the Company received a third and final instalment payment in the amount of \$124,626 in connection with a \$469,875 funding contribution from ACOA to assist with the establishment and operation of the BTSC.

(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.