

Management’s Discussion and Analysis of Results of Operations and Financial Condition For the Three Months Ended December 31, 2012

This Management’s Discussion and Analysis of Results of Operations and Financial Condition (“MD&A”) of Bluedrop Performance Learning Inc. (formerly Serebra Learning Corporation) (“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, 2012 and should be read in conjunction with the Company’s Condensed Interim Financial Statements and notes thereto for the three months ended December 31, 2012. 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 March 1, 2013.

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 March 1, 2013 and are subject to change after such date.

COMPANY OVERVIEW

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

The CoursePark Learning Services business ("CLS business") 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 operations acquired in the reverse takeover, which also include licencing, consulting services and sale of commercial off-the-shelf courses, are included in the CLS business from January 26, 2012.

The Defence & Aerospace business ("D&A 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.

The Company's corporate office is located in St. John's, Newfoundland and Labrador, Canada. The Company currently has approximately 115 employees working at seven offices in Canada and the United States.

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 was considered to be the acquirer for purposes of recording the business combination and the 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.

References in this MD&A to the Company's operations therefore refer to the operations of Blue Drop to January 26, 2012 and to the combined operations thereafter.

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 reflected the fact that the Company's personnel, technical knowledge, experience and expertise will allow for more rapid development of *CoursePark*TM, 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

RESULTS OF OPERATIONS

The following tables and discussion compare Bluedrop's operating results for the quarter ended December 31, 2012 to the quarter ended December 31, 2011.

(Canadian dollars in thousands)	3 months ended		Change	
	December 31		(2012 vs. 2011)	
	2012	2011	\$	%
Revenue	2,393	2,080	313	15%
Direct costs	1,429	1,069	360	34%
Gross profit	964	1,011	(47)	-5%
Gross profit percentage	40%	49%		
Expenses				
Sales and marketing	606	329	277	84%
General and administration	818	772	46	6%
Government assistance	(442)	(721)	279	-39%
Share-based compensation	151	-	151	100%
Finance costs	88	26	62	238%
Depreciation and amortization	204	83	121	146%
	1,425	489	936	191%
Earnings before income taxes	(461)	522	(983)	-188%
Income taxes	(53)	186	(239)	-128%
Net earnings	(408)	336	(744)	-221%

Revenue

For the quarter ended December 31, 2012 revenues from the D&A business increased by \$125,909 as compared to the same period in 2011, accounting for 71% of total revenue. Revenues in the CLS business increased by \$186,597 during this period. The following tables illustrate the growth and shift in revenues from each identified market channel for the quarter ended December 31, 2012.

(Canadian dollars in thousands)	3 months ended December 31				Change	
	2012	% of total	2011	% of total	\$	%
Revenue						
<i>Defence & Aerospace</i>	1,701	71%	1,575	76%	126	8%
<i>CoursePark Learning Services</i>	692	29%	505	24%	187	37%
	<u>\$2,393</u>	100%	<u>\$2,080</u>	100%	<u>\$313</u>	15%

Revenues in the CLS business were significantly higher in the quarter as a result of the operations acquired in the reverse takeover from January 26, 2012.

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 or funded products.

For the quarter ended December 31, 2012 total direct costs were \$1,428,776, an increase of \$359,538 (34%) over the same quarter in the prior period.

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

Gross profit

For the quarter ended December 31, 2012 gross profit was \$964,178, a decrease of \$47,032 (5%) over the same quarter in the prior period. The reported gross profit percentage for the quarter ended December 31, 2012 was 40% as compared to 49% for the same period in the prior year.

The D&A business unit gross profit for the quarter ended December 31, 2012 was \$663,368 versus \$722,349 for the same period in 2011. The gross profit percentage was 39% for the current period versus 46% for the prior period. The D&A decrease in gross profit was primarily a result of delays in executing various follow on deliverables associated with a single contract that was put in a temporary hiatus status. This caused the Company to reduce revenue recognition associated with the specific contract and also caused delays in delivery of the associated follow up deliverables. Management is working with the customer to get the contract back into production within the fiscal year so that both the primary deliverables as well as the associated follow on deliverables can be moved forward. The Company took steps to deploy the affected employees in the quarter but not without some delays which resulted in less billable hours and utilization than expected in the quarter.

The CLS business unit gross profit for the quarter ended December 31 2012 was 43% versus 57% for the same period in 2011. The CLS decrease in gross profit was as a result of a onetime write-off of \$48,000 associated with an expired prepaid courseware licences that was not fully used in the time frame under the contract terms and the result of a change in the revenue mix for period. The revenue mix will continue to vary by quarter but it is expected that it will be within the normal ranges over the fiscal period.

Sales and marketing

For the quarter ended December 31, 2012 net sales and marketing expenses were \$606,207, an increase of \$277,134 (84%) 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, 2012 net general and administration expenses were \$818,381, an increase of \$46,052 (6%) over the same quarter in the prior period.

Increases in wages and benefits, operating supplies, occupancy, communications and other administration costs are generally in line with the overall growth of the business.

Government assistance

Government assistance includes contributions from the Atlantic Innovation Fund ("AIF"), National Research Council Canada Industrial Research Assistance Program ("NRC-IRAP"), Invest New Brunswick, the federal and provincial Scientific Research and Experimental Development ("SRED") and Digital Media Tax Credit ("DMTC") programs. The difference between the fair value at inception of below market interest loans and the loan proceeds received is also recorded as government assistance. For the quarter ended December 31, 2012 government assistance was \$442,048, a decrease of \$279,321 (39%) over the same quarter in the prior period.

Government assistance for the quarter ended December 31, 2012 included \$114,084 of AIF contributions supporting *Coursepark*TM development activities (2011 - \$7,497) and a grant from Invest New Brunswick for the set-up of the Company's new office in Miramichi. This assistance totaled \$62,978 for the quarter ended December 31, 2012 (2011 - \$Nil).

Government assistance for the quarter ended December 31, 2012 also includes \$23,000 relating to the current year's SRED claim whereas the quarter ended December 31, 2011 included \$670,000 relating to SRED claims for the taxation periods ended December 31, 2010 (\$310,000) and December 31, 2011 (\$360,000).

Government assistance for the quarter ended December 31, 2012 included \$183,795 of DMTCs (\$2011 - \$Nil).

Share-based compensation

Pursuant to its 2011 Stock Option Plan, the Company has reserved a maximum of 10% of the issued and outstanding common shares of the Company for issuance on the exercise of share options. During the quarter the Company did not grant any further options under the plan.

The Company recorded \$151,212 as share-based compensation expense for the quarter ended December 31, 2012 (2011 - \$Nil) and recorded a corresponding increase in the share option reserve.

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

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.

The Company had 8,911,385 options outstanding as at December 31, 2012 related to the above stock option plans.

Finance costs

For the quarter ended December 31, 2012 finance costs were \$87,417, an increase of \$61,491 (237%) over the same quarter in the prior period.

The period-over-period increase is a result of an increase in long term debt interest and accretion of \$46,408. In addition, short term interest and bank charges increased by \$6,134 as a result of increased usage of short term borrowing facilities. The debt was primarily used to fund working capital throughout the quarter.

Depreciation and amortization

For the quarter ended December 31, 2012 depreciation and amortization expense was \$204,342, an increase of \$120,991 (145%) over the same quarter in the prior year. The increase is related to investment in capital assets and

intangible assets, amortization of deferred development costs and amortization of the technology and customer relationship intangible assets recognized on the acquisition of Serebra as noted above.

The Company invested \$319,797 in capital assets and intangible assets (including assets financed by finance leases) during the quarter ended December 31, 2012. The additions were offset by government assistance totaling \$419,421 towards the cost of these assets.

Earnings before income taxes

For the quarter ended December 31, 2012 the loss before income taxes was \$461,333 and earnings before income taxes over the same quarter in the prior year were \$521,900.

Income taxes

For the quarter ended December 31, 2012 income tax recovery was \$53,533 and the income tax expense was \$185,673 from the same quarter in the prior year. The tax expense for the quarter ended December 31, 2011 reflected an adjustment to taxes recorded for the year ended September 30, 2011 as a result of claiming the SRED credits in that period.

Net earnings (loss)

For the quarter ended December 31, 2012 the Company reported a net loss of \$407,800 as compared to net earnings of \$336,227 for the same quarter in the prior period.

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 3 of the Condensed Interim Financial Statements for the quarter ended December 31, 2012. 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	2013	2012	2012	2012	2012	2011	2011	2011
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	Dec-31	Sep-12	Jun-30	Mar-31	Dec-31	Sep-30	Jun-30	Mar-31
Revenue								
<i>Defence & Aerospace</i>	\$1,701	\$1,599	\$2,837	\$1,730	\$1,575	\$1,722	\$2,269	\$707
<i>CoursePark Learning Services</i>	692	1,032	512	682	505	284	350	636
<i>Corporate and other</i>	-	-	-	-	-	19	-	-
	2,393	2,631	3,349	2,412	2,080	2,025	2,619	1,343
Direct costs	1,429	1,028	1,689	1,317	1,069	1,102	1,228	741
Gross profit	964	1,603	1,660	1,095	1,011	923	1,391	602
Gross profit percentage	40%	61%	50%	45%	49%	46%	53%	45%
Expenses								
Sales and marketing	606	670	362	386	329	236	169	151
General and administration	818	782	783	925	772	728	393	441
Development costs	-	-	-	-	-	417	308	208
Government assistance	(442)	(364)	(103)	(181)	(721)	(143)	(144)	(119)
Loss on investments and advances	-	-	-	-	-	217	-	-
Share-based compensation	151	204	114	184	-	-	-	439
Finance costs	88	78	55	51	26	73	2	2
Depreciation and amortization	204	175	171	140	83	73	41	32
	1,425	1,545	1,382	1,505	489	1,601	769	1,154
Profit (loss) before income taxes	(461)	58	278	(410)	522	(678)	622	(552)
Income taxes (recovery)	(53)	(22)	139	(97)	186	(64)	90	(14)
Net profit (loss)	\$ (408)	\$ 80	\$ 139	\$ (313)	\$ 336	\$ (614)	\$ 532	\$ (538)

Fiscal 2013

The D&A decrease in revenue and gross profit, as noted in the Gross Profit section above, has significantly contributed to the loss for the quarter.

Fiscal 2012

The significant increase in revenue, gross profit and net profit in Q3 reflected the Company's second simulator sale in the D&A business. The increase in revenues and gross profit in Q4 reflects the commencement of a large contract in the CLS business in September 2012.

Sales and marketing costs have increased as a result of increased relevant wages and employee benefits, travel costs and marketing and promotional costs as noted above. General and administrative expenses during Q2 included professional fees relating to the reverse takeover. In addition to planned government assistance from ACOA (AIF), the Company recorded \$670,000 in government assistance relating to SRED claims for F2010, F2011 and F2012, contributing to a net profit for Q1.

Fiscal 2011

Q2 saw the commencement of a large contract in the CLS business in March 2011. The Company recorded share-based compensation during Q2, offsetting the margin increases associated with the CLS business contract.

The significant increase in revenue, gross profit and net profit in Q3 reflected the ramping of work on a fixed-price D&A business contract, as well as the Company's first sale of a Hercules Observer Trainer ("HOT") in the D&A business.

Revenues were lower in Q4 than in Q3 due to the HOT sale in Q3. An increase in professional fees relating to the reverse takeover plus a write-down of a loan advance contributed to the loss for the quarter.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the quarter ended December 31, 2012 the Company's cash used for operating activities was \$711,237, an increase of \$308,121 for the same period in the prior year. For the quarter ended December 31, 2012 the Company increased cash and cash equivalents by \$165,111 (2011 - decreased by \$8,636).

The change in cash used for operating activities relates to temporary changes in the timing of client billings and cash receipts (\$822,163 decrease in accounts receivable) as well as accrued receivables relating to government assistance recorded in the quarter (\$800,281 increase in accounts receivable).

The timing of revenue recognition also differs from contract payment schedules. Amounts billed in accordance with customer contracts but in advance of completion of services or delivery of goods are recorded as deferred revenue. The value of unbilled services performed is recorded as work in progress. The decrease in deferred revenue for the quarter was \$82,282 and the increase in work in progress was \$797,941.

Investing activities

For the quarter ended December 31, 2012 the Company used cash of \$319,848 for investing activities compared to \$367,408 for the same period in the prior year.

An investment of \$258,822 was incurred in the period ended December 31, 2012 for intangible assets including the deferral of \$258,042 of development costs (net of \$239,901 government assistance) related to the development of *CoursePark*TM.

Financing activities

For the quarter ended December 31, 2012 the Company generated \$1,196,196 in cash from financing activities as compared to generating \$761,888 in cash for financing activities for the same period in the prior year.

Financing activities for the quarter ended December 31, 2012 included a \$1,125,000 increase in operating loans, \$166,162 in proceeds in long term debt, net of repayments of \$28,504 against finance lease obligations and \$31,125 against long term debt.

Financing activities for the quarter ended December 31, 2011 included a \$663,505 increase in operating loans, net of repayments of \$14,949 against finance lease obligations and \$5,925 against long term debt.

Cash and credit availability

At December 31, 2012 the Company was indebted to banks for \$1,436,000 as compared to net indebtedness of \$419,051 at September 30, 2012.

On April 26, 2012, the Company executed a new 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 (approximately \$125,000 undrawn).

On July 24, 2012, the Company has entered into a short term non-revolving loan in the amount of \$266,000 with Royal Bank of Canada. The facility is 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 has provided a General Security Agreement as security for this indebtedness. The outstanding balance as at December 31, 2012 was \$266,000. The balance has been subsequently repaid in full.

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, 2012:

Scheduled payments due by period (Canadian dollars in thousands)	Long term debt	Capital leases	Operating leases	Total
2013 (year ended September 30)	275	94	491	860
2014	736	74	588	1,398
2015	474	22	525	1,021
2016	458	11	527	996
2017	349	6	524	879
Thereafter	671	-	1,440	2,111
	\$ 2,963	\$ 207	\$ 4,095	\$ 7,265

During the quarter ended December 31, 2012 the Company executed new finance leases with total payment obligations in the amount of \$22,838.

PROVISIONS AND CONTINGENT LIABILITIES

(a) Conditionally Repayable Grants

To December 31, 2012 the Company had recognized AIF contributions of \$2,531,111 pursuant to a 2008 agreement with ACOA, as amended and contributions of \$953,909 pursuant to an AIF agreement entered into with ACOA in 2012. The 2012 ACOA agreement is for a maximum contribution of \$3,000,000 over the life of the agreement. The Company must repay the contributions by annual installments calculated as 5% of the gross revenues generated from products and services resulting from the research funded. A continuity of the amount of the provision recognized is as follows:

	December 31	September 30
	2012	2012
Opening balance	\$ 469,903	424,004
Accretion	16,447	59,361
Royalties paid or payable	(19,159)	(14,878)
Revaluation of provision	16,250	1,416
	\$ 483,441	469,903

(b) Joint and Several Mortgage Liability

The Company is jointly and severally liable for a mortgage issued in the names of LB2P, the Company and Rizbollo Holdings Limited. The principal balance on the mortgage at December 31, 2012 was \$1,044,000. The liability is recorded on the balance sheet of LB2P which owns the asset securing the indebtedness. Should LB2P fail to meet the obligations under the mortgage, the Company may be required to satisfy those obligations. The loan bears interest at the Business Development Bank of Canada's floating base rate less 0.25% which, at December 31, 2012 was 4.75%, and is repayable in monthly principal installments of \$4,500 plus interest until April 2032. Management does not anticipate any payments will be required by the Company and as such no provision has been recorded.

(c) 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 periods 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, 2012, the estimated amount owing, including accrued interest would be \$291,899. Management does not anticipate any repayment will be required and as such no provision has been recorded.

SHARE INFORMATION

At December 31, 2012 the Company had issued 98,986,609 common shares and 8,911,385 share options that can be exercised when vested to obtain an equivalent number of common shares.

The reverse takeover resulted in continuation of the financial statements of Blue Drop, adjusted to reflect the legal capital of the Company. The follow table illustrates the transactions in the Company's common shares during the quarter ended December 31, 2012, including the eliminations to give effect to the reverse takeover.

	Number of shares	Share capital
Issued and outstanding at September 30, 2011	38,676,016	\$ 11,663,735
Share proceeds received		13,500
Private placement, net of share issue costs	6,304,788	360,842
Issued as compensation to directors, officers, employees and consultants	3,500,000	315,000
	48,480,804	12,353,077
Share consolidation (4 to 1)	(36,360,603)	-
Issued and outstanding at January 26, 2012	12,120,201	12,353,077
Blue Drop's common shares at January 26, 2012	5,692,425	689,760
Eliminations as a result of the reverse takeover	(5,692,425)	(12,353,077)
	12,120,201	689,760
Issued as consideration for the reverse takeover	86,866,408	4,363,261
Issued and outstanding at September 30, 2012 and December 31, 2012	98,986,609	5,053,021

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, 2012:

- The Company recorded rent expense of \$57,960 for the quarter ended December 31, 2012 (2011 - \$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 10 year lease with LB2P for 100% of the premises available for lease of 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 \$156,350 for the quarter ended December 31, 2012 (2011 - \$79,850) 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 (commencing January 26, 2012), the President & Chief Executive Officer and the Chief Financial Officer. The former CFO was engaged on a fee for service basis from November 1, 2010 to December 31, 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.
- The Company recognized an expense of \$57,415 for the quarter ended December 31, 2012 (2011 - Nil) 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. If the shares are subject to escrow, as shares are released from escrow they may be held by the Company as collateral. 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 these 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. Judgement 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 recorded a deferred tax asset on the reverse takeover more fully described in the Company's financial statements for the year ended September 30, 2012. 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 capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised 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) Business combinations

Management uses valuation techniques in determining the fair values of the various elements of a business combination. Significant estimates include the amount and timing of future cash flows and discount rates used in measuring the fair value of intangible assets acquired in a business combination.

(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 is currently completing multi-period contracts that collectively accounted for 41% of the Company's total revenue for the quarter ended December 31, 2012. The loss of these contracts and/or a failure to secure similar contracts in the future could have a significant impact on the Company's financial condition and results of operations.

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 D&A business and by expanding its sales channels and courseware content portfolio for the CLS 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, 2012 approximately 28% (September 30, 2012 – 41%) of trade receivables were due 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. This customer's trade receivable balance is substantially offset by amounts recorded 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, 2012 was \$35,764 (September 30, 2012 - \$35,764). At December 31, 2012 the Company's trade accounts receivable included amounts over 90 days old totaling \$346,323 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (September 30, 2012 – \$419,757).

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 2011, 2012 and to date in 2013 Bluedrop has continued to invest to support its continuing year over year revenue 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.

During the remainder of 2013 Bluedrop will continue to execute on its multi-period contracts within the D&A business and continue to market its *CoursePark*TM services. It is expected that the company will continue to invest in the development of the company's core technical capabilities in both *CoursePark*TM and in the newly established Bluedrop Training and Simulation Centre in Halifax.