Bluedrop Performance Learning Inc.
(formerly Serebra Learning Corporation)

Financial Statements

Year ended September 30, 2012

Contents

Independent auditor's report

Grant Thornton LLP
Suite 300
15 International Place
St. John's, NL
A1A 0L4

T +1 709 788 8800
F +1 709 722 7892
www.GrantThornton.ca

To the Shareholders of

Bluedrop Performance Learning Inc.

We have audited the accompanying financial statements of Bluedrop Performance Learning Inc., which comprise the statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, and the statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for the years ended September 30, 2012 and September 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bluedrop Performance Learning Inc. as at September 30, 2012, September 30, 2011, and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

Grant Thornton LLP

St. John's, Canada

February 1, 2013

Chartered accountants

Bluedrop Performance Learning Inc.

Statements of Financial Position

In Canadian dollars	September 30 2012	September 30 2011	October 1 2010
ASSETS			
Current assets			
Cash and cash equivalents	$ 15,135	-	78,798
Accounts receivable (Note 6)	4,168,197	2,650,564	2,964,145
Work in progress	490,201	298,600	347,414
Income taxes recoverable	16,131	97,000	-
Prepaid expenses	401,298	113,659	50,885
Due from related parties (Note 7)	50,000	-	-
	5,140,962	3,159,823	3,441,242
Due from related parties (Note 7)	169,816	50,000	10,516
Deferred tax assets (Note 8)	1,384,657	-	51,000
Goodwill and other intangible assets (Note 9)	3,641,517	515,518	22,588
Property and equipment (Note 10)	1,553,096	508,327	362,197
	$ 11,890,048	4,233,668	3,887,543
LIABILITIES AND EQUITY			
Current liabilities			
Bank indebtedness (Note 11)	$ 419,051	411,508	-
Accounts payable and accruals	1,685,330	862,830	676,804
Deferred revenue	1,679,834	1,966,317	1,733,712
Current portion of obligations under finance leases (Note 12)	96,995	37,258	49,530
Current portion of long term debt (Note 13)	192,534	24,002	92,989
	4,073,744	3,301,915	2,553,035
Obligations under finance leases (Note 12)	101,482	40,822	7,450
Long term debt (Note 13)	1,903,803	51,037	75,039
Class D common shares (Note 14)	-	375,000	375,000
Due to related parties (Note 7)	-	1,096	8,360
Provisions (Note 15)	469,903	424,004	395,197
Deferred tax liabilities (Note 8)	-	12,000	-
	6,548,932	4,205,874	3,414,081
Equity			
Share capital (Note 16)	5,053,021	80,309	80,309
Share option reserve (Note 16)	536,675	439,635	-
Retained earnings (deficit)	(248,580)	(492,150)	393,153
	5,341,116	27,794	473,462
	$ 11,890,048	4,233,668	3,887,543

Approved on Behalf of the Board

Derrick H. Rowe
Director

B.E Beckett
Director

See notes to the financial statements

Bluedrop Performance Learning Inc.

Statements of Comprehensive Income (Loss)

Year Ended September 30

In Canadian dollars

		2012	2011
Revenue			
Services Revenue	$	8,608,695	5,885,336
Product Sales		1,862,811	972,062
		10,471,506	6,857,398
Direct costs		5,359,682	3,598,170
Gross profit		5,111,824	3,259,228
Expenses			
Sales and marketing		1,601,751	705,066
General and administration		3,148,841	1,943,072
Development costs		-	1,137,503
Government assistance (Note 17)		(1,369,125)	(512,364)
Share-based compensation (Note 16)		502,434	439,635
Finance costs (Note 18)		209,504	76,271
Depreciation and amortization		569,420	172,703
Loss on investments and advances		-	216,645
		4,662,825	4,178,531
Earnings (loss) before income taxes		448,999	(919,303)
Income tax expense (recovery) (Note 8)			
Current		76,086	(97,000)
Deferred		129,343	63,000
		205,429	(34,000)
Net earnings (loss) and comprehensive income (loss)	$	243,570	(885,303)
Net earnings (loss) per share			
Basic		0.0026	(0.0109)
Diluted		0.0026	(0.0109)
Weighted average number of shares outstanding			
Basic		93,492,236	81,107,755
Diluted		93,515,124	81,107,755

See notes to the financial statements

Bluedrop Performance Learning Inc.

Statements of Changes in Equity

Year Ended September 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
October 1, 2010	5,127,451	187,605	-	$ 80,309	-	393,153	473,462
Share-based compensation	-	-	-	-	439,635	-	439,635
Loss and comprehensive loss	-	-	-	-	-	(885,303)	(885,303)
September 30, 2011	5,127,451	187,605	-	80,309	439,635	(492,150)	27,794
Exercise of share options	-	377,369	-	609,451	(439,635)	-	169,816
Issuance of common shares on reverse takeover (Note 5)	(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	-	-	-	- -
Share-based compensation	-	-	-	-	502,434	-	502,434
Earnings and comprehensive income	-	-	-	-	-	243,570	243,570
September 30, 2012	-	-	98,986,609	$ 5,053,021	536,675	(248,580)	5,341,116

Bluedrop Performance Learning Inc.

Statements of Cash Flows

Year Ended September 30		**2012**	**2011**
In Canadian dollars			
Increase (decrease) in cash and cash equivalents			
Operating activities			
Net earnings (loss) for the period	$	243,570	(885,303)
Items not affecting cash:			
Share-based compensation		502,434	439,635
Depreciation and amortization		569,420	172,703
Loss on investments and advances		-	216,645
Non-cash government assistance		(260,766)	-
Revaluation of provisions		1,416	4,874
Finance costs		209,504	76,271
Deferred taxes		129,343	63,000
Interest paid		(52,789)	(13,493)
		1,342,132	74,332
Changes in non-cash working capital (Note 19)		(1,007,504)	604,607
		334,628	678,939
Investing activities			
Advances to related parties		(1,096)	(46,748)
Investments and advances		-	(200,000)
Net cash flow on business combinations (Note 5)		263,277	(90,000)
Purchase of property and equipment		(1,203,621)	(162,524)
Purchase of intangible assets		(627,716)	(456,425)
		(1,569,156)	(955,697)
Changes in non-cash working capital (Note 19)		(724,577)	-
		(2,293,733)	(955,697)
Financing activities			
(Decrease) increase in operating loans		(59,000)	370,000
Repayment of obligations under finance leases		(60,520)	(81,714)
Advances of long term debt		2,467,626	-
Repayment of long term debt		(24,002)	(92,989)
Repayment of royalties		(14,878)	(31,395)
Release of escrow - Class D common shares		125,000	-
Repurchase of Class D common shares		(500,000)	-
Interest paid		(26,529)	(7,450)
		1,907,697	156,452
Decrease in cash and cash equivalents		(51,408)	(120,306)
Cash and cash equivalents, beginning of period		(41,508)	78,798
Cash and cash equivalents, end of period	$	(92,916)	(41,508)
Cash and cash equivalents consists of:			
Cash on hand and in bank	$	15,135	-
Bank overdraft		(108,051)	(41,508)
	$	(92,916)	(41,508)

1. Nature of operations

Bluedrop Performance Learning Inc. (formerly Serebra Learning Corporation) (the Company) was continued under the Corporations Act of Newfoundland and Labrador on January 26, 2012.

On January 26, 2012 the Company completed a business combination with Blue Drop Inc. (Blue Drop) which constituted a reverse takeover of the Company by Blue Drop. Because Blue Drop is considered to be the acquirer for purposes of recording the business combination, these financial statements are a continuation of the financial statements of Blue Drop, adjusted to reflect the legal capital of the Company. On January 27, 2012 the Company commenced trading on the TSX Venture Exchange under the symbol BPL.

The Company provides e-learning and course development services and offers online training solutions for businesses and individuals through *CoursePark*™, a cloud-based learning management solution and *Campus*™, a traditional learning management system. In addition, the Company provides custom courseware development, training products, low cost simulation and resource augmentation solutions to improve the safety, productivity and efficiency of military and civil aviation personnel through its 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 February 1, 2013.

2. Basis of presentation

These financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) using accounting policies consistent with IFRS as issued by the International Accounting Standards Board (IASB). These are the Company's first annual financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The Company's annual financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). An explanation of how the transition to IFRS has affected the reported financial position and financial results is provided in note 25.

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. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks. Bank borrowings are considered to be financing activities.

(b) Intangible assets

Intangible assets are stated at cost less accumulated amortization. Except where they have indefinite lives, intangible assets are amortized over their estimated useful lives or licence contract period at the following rates and methods:

Computer software	50%	declining balance method
Licences	3-5 years	straight-line method
Technology	5 years	straight-line method
Customer lists	7 years	straight-line method
Courseware and other	3 years	straight-line method

Government contributions toward intangible assets are recorded as a reduction in the cost of the asset.

(c) Property and equipment

Property and equipment is carried at cost less accumulated depreciation. Property and equipment is depreciated over the estimated useful life of the asset at the following rates and methods:

Computer equipment	30%	declining balance method
Furniture, fixtures and equipment - simulation equipment	5 years	straight-line method
Furniture, fixtures and equipment - other	20%	declining balance method
Vehicles	30%	declining balance method
Leasehold improvements	10 years	straight-line method

Leasehold improvements are amortized over the lesser of the useful life of the asset and the remaining lease period.

Government contributions toward property and equipment are recorded as a reduction in the cost of the asset.

(d) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Where the Company is a lessee in a finance lease, the related asset is recognized at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognized as a finance lease liability. The leased assets are depreciated in accordance with the Company's policy for owned assets of the same type. For operating leases, payments are recognized as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(e) Provisions

Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, for which it is probable that a transfer of economic benefits will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. No provision is recognized where the possible outflow of economic resources as a result of present obligations is improbable or remote.

Provisions are discounted using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to passage of time is recognized within finance costs in the statement of comprehensive income (loss).

3. Significant accounting policies (continued)

(f) Revenue recognition

Multiple-element arrangements

The Company often enters into sales transactions involving the supply of multiple products and services. The Company applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction. The consideration received from multiple-component transactions is allocated to each separately identifiable component in proportion to its relative fair value.

Services revenue

Service revenues are generated from services rendered in custom courseware development and consulting services. Revenues from services are recognized as services are rendered when the revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Company.

Revenue from professional 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. The timing of revenue recognition often differs from contract payment schedules. Amounts billed in accordance with customer contracts but in advance of completion of services are recorded as deferred revenue. The value of unbilled services performed is recorded as work in progress.

Product sales

Product sales include the sale of simulation products, courseware licensing and commercial off-the-shelf courseware. Revenues from the sale of goods are recognized when risks and rewards of ownership have transferred to the buyer, the Company retains neither continuing managerial involvement nor effective control over the goods sold, the amount of revenue and costs incurred in respect to the transaction can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Company.

The Company develops and sells simulators and simulation related products. Revenues from the sale of such products are recognized when the product has been delivered to the customer and the recognition criteria noted above are met. Associated warranty and support revenues are deferred and recognized over the term specified in the arrangement.

The Company offers online training solutions for businesses and individuals through *CoursePark*™, a cloud-based learning management solution and *Campus*™, a traditional learning management system. Revenues from commercial off-the-shelf courseware, *CoursePark*™ and *Campus*™ licencing is recognized over the term of the licence, except perpetual licences, where revenue is recognized in full at the time of the initial grant. Amounts billed but not recognized are recorded as deferred revenue.

(g) Development costs

Costs incurred on development projects, which in management's view have clearly defined market prospects, are technically feasible and for which the Company intends to commit resources, are capitalized as intangible assets. Capitalized development costs represent expenditures incurred by the Company primarily related to the development of the CoursePark™ learning management system and associated courseware.

Costs associated with projects in the condition necessary for them to be capable of operating in the manner intended by management are depreciated over their estimated useful lives. If capitalized expenditures are deemed to be no longer commercially viable or facts and circumstances suggest that the carrying amount exceeds the recoverable amount, the balance of capitalized development costs is expensed. Any research and development costs that do not meet the criteria for capitalization are expensed as incurred.

3. Significant accounting policies (continued)

(h) Government assistance

The Company receives government assistance in the form of non-repayable contributions, conditionally-repayable contributions, forgivable loans and credits under the Scientific Research and Experimental Development (SRED) program. Contributions toward operating costs and property and equipment are recorded as reduction of those costs and assets. Contributions toward the costs of capitalized development projects are recorded as a reduction in the cost of the asset.

Government grants are recognized when there is reasonable assurance that the grant will be received and all significant conditions will be achieved. Credits under the SRED program are recorded when amounts can be reasonably estimated and receipt is reasonably assured.

A liability to repay a conditionally-repayable government contribution is recognized when it is probable that an outflow of resources will be required to be repay the contribution.

(i) Share-based compensation

The Company has an equity settled share-based compensation plan and records compensation expense for share options using the fair value method. The compensation expense for options granted to employees is determined based on the estimated fair value of the share options at the time of grant using the Black-Scholes option pricing model and is amortized over the vesting period with an offset to share option reserve. When options are exercised, the corresponding share option reserve and the proceeds received by the Company are credited to share capital. The amount recognized as expense is adjusted to reflect the number of options expected to vest.

(j) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income, based on the Company's forecast of future operating results which is adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

3. Significant accounting policies (continued)

(k) Financial instruments

The Company classifies all financial instruments as either held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. All financial instruments are initially measured at fair value. Financial instruments classified as held for trading or available for sale are subsequently measured at fair value, with any change in fair value recognized in earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost using the effective interest method.

The Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivables	Loans and receivables	Amortized cost
Due from related parties	Loans and receivables	Amortized cost
Operating loan	Other financial liabilities	Amortized cost
Accounts payable and accruals	Other financial liabilities	Amortized cost
Obligations under finance leases	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

Government loans with below-market interest rates are measured at amortized cost using the effective interest method. The difference between the fair values at inception and the loan proceeds received is recorded as government assistance.

Transaction costs other than those related to financial instruments classified as fair value through profit or loss, which are expensed as incurred, are added to or deducted from the fair value of the financial asset or financial liability, as appropriate, on initial recognition and amortized using the effective interest method.

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the financial asset. A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counter party will default.

(l) Business combinations

The Company applies the acquisition method in accounting for business combinations. The consideration transferred by the Company to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Company, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Company recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognized in the acquiree’s financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of the fair value of consideration transferred, the recognized amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognized in profit or loss immediately.

3. Significant accounting policies (continued)

(m) Earnings per share

Basic earnings (loss) per share are computed by dividing earnings (loss) by the weighted average shares outstanding during the reporting period. The Company calculates diluted earnings per share under the treasury share method for warrants and share options. Under the treasury share method, the proceeds from the exercise of warrants and options are assumed to be used to repurchase the Company's shares on the open market. The difference between the number of shares assumed purchased and the number of warrants and options exercised is added to the number of basic shares outstanding to determine diluted shares outstanding for purposes of calculating diluted earnings per share.

(n) Impairment of assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management monitors goodwill.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Cash-generating units to which goodwill has been allocated (determined by the Company as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

(o) Significant management judgement and estimation uncertainty

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:

i) 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.

3. Significant accounting policies (continued)

(o) Significant management judgement and estimation uncertainty (continued)

ii) Income taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Company recorded current and deferred tax expense 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 described in Note 5. Management considers that it is probable that the tax asset will be realized. The ultimate realization of this asset is dependent upon the Company's ability to generate sufficient taxable income to utilize the tax losses recognized. 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.

iii) Government assistance

The Company receives government assistance pursuant to specific contractual funding agreements and is also eligible to receive cash tax credits under the SRED program. 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 program 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.

iv) Development costs

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

<u>Estimation uncertainty</u>

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

i) 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.

ii) 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 is 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.

3. Significant accounting policies (continued)

(o) Significant management judgement and estimation uncertainty (continued)

iii) 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.

iv) 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.

v) 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.

4. New and future accounting standards

The following new or amended standards are effective for annual periods beginning on or after the dates indicated below, with earlier adoption permitted. The Company has not early adopted these standards and is currently assessing the impact they will have on its financial statements.

IFRS 9 *Financial Instruments*
IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement*. [January 1, 2015]

IFRS 10 *Consolidated Financial Statements*
IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities*. [January 1, 2013]

IFRS 11 *Joint Arrangements*
IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. [January 1, 2013]

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 requires specific disclosure of information by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. [January 1, 2013]

IFRS 13 *Fair Value Measurements*
IFRS 13 defines fair value, sets out in a single IFRS framework for measuring value and requires disclosures about fair value measurements. IFRS 13 applies to when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. [January 1, 2013]

IAS 1 *Presentation of Financial Statements*
Amendments to IAS 1 require that items presented in other comprehensive income be grouped together based on whether or not they will be subsequently reclassified to profit or loss. [July 1, 2012]

IAS 19 *Employee Benefits*
Amendments to IAS 19 address the recognition and measurement of post-employment defined benefit expenses and termination benefits and the disclosure of all employee benefits. [January 1, 2013]

IAS 32 *Financial Instruments: Presentation*
Amendments to IAS 32 establish criteria for offsetting of financial assets and liabilities. [January 1, 2014]

IFRS 7 *Financial Instruments: Disclosure*
Amendments to IFRS 7 establish new disclosure requirements for financial assets and liabilities that have been offset in the statement of financial position or are subject to offsetting agreements. [January 1, 2013]

In Canadian dollars

5. 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 fair value of the consideration transferred was determined to be $4,397,502. Consideration includes $4,363,261 of common shares issued based on the fair value of the common shares of the Company on the closing date and $34,241 of share option reserve related to the deemed exchange of share options at acquisition (Note 16(d)). The value of goodwill was calculated as the excess of the fair value of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed. This goodwill is not deductible for income tax purposes.

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

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.

Direct transaction costs in the amount of $259,873 have been expensed during the year ended September 30, 2012 and are included in general and administration expenses. Transaction costs in the amount of $235,034 were expensed in the year ended September 30, 2011.

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

The assets and liabilities acquired in the business combination were merged with the existing operations of Blue Drop proceeding the acquisition. As such, it is impractical to provide the results of operations of the acquiree since the acquisition date.

(b) Nurses Network

On September 30, 2011 the Company acquired the Nurses Network business of MedSenses Inc. for cash consideration of $90,000. No working capital was acquired in the transaction. The transaction was accounted for using the acquisition method of accounting. The purchase price was allocated 100% to intangible assets (purchased courseware).

Transaction costs of $8,288 (September 30, 2011 - $1,227) relating to the acquisition were expensed and are included in general and administration expenses for the year ended September 30, 2012.

In Canadian dollars

6. Accounts receivable

		September 30 2012	September 30 2011	October 1 2010
Trade	$	2,551,857	2,260,699	2,539,104
Government assistance		1,526,512	307,551	384,993
Other		89,828	82,314	40,048
	$	4,168,197	2,650,564	2,964,145

7. Due from (to) related parties

		September 30 2012	September 30 2011	October 1 2010
LB2P Holdings Inc.	$	50,000	50,000	10,516
Shareholders		-	(1,096)	(8,360)
Employees - share purchase loans		169,816	-	-
	$	219,816	48,904	2,156

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.

As collateral for the non-interest bearing share purchase loans, the borrowers have granted the Company a security interest in the shares purchased. The loans are repayable within 90 days of termination of employment, are repayable at a rate of 50% of cash proceeds in the event of a sale of shares prior to repayment of the loans and are otherwise repayable in full on or before January 31, 2015.

8. Income taxes

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

		2012	2011
Earnings (loss) before income tax	$	448,999	(919,303)
Statutory tax rate		27%	29%
Expected tax expense		121,230	(266,598)
Non-deductible share based compensation		135,657	127,494
Other non-deductible expenses		23,761	20,209
Changes in current and future tax rates		(190)	15,184
Revision of prior year estimates		(75,029)	11,711
Benefit of capital loss not recognized		-	58,000
	$	205,429	(34,000)
Current tax expense	$	76,086	(97,000)
Deferred tax expense		129,343	63,000
	$	205,429	(34,000)

The reduction of the combined Canadian federal and provincial statutory income tax rate includes the federal rate reduction of 1.5% for 2012.

In Canadian dollars

8. **Income taxes** (continued)

Deferred taxes reflect the net tax effects of the temporary differences between the carrying value of assets and liabilities for accounting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax position are as follows:

		September 30 2012	September 30 2011	October 1 2010
Work in progress		(66,177)	(47,627)	-
Intangible assets		(134,136)	(22,141)	-
Property and equipment		33,983	(65,232)	(12,533)
Long term debt		(114,028)	-	-
Provisions		126,874	123,000	59,000
Non-capital losses		1,538,141	-	4,533
Deferred tax assets (liabilities)	$	1,384,657	(12,000)	51,000

As of September 30, 2012, the deferred tax liability resulting from intangibles assets includes an amount of $133,296 related to the recognition of intangible assets acquired as part of the reverse takeover, and the deferred tax asset arising from non-capital loss includes an amount of $1,538,141 related to the recognition of Serebra non-capital losses acquired as part of the reverse takeover and which are considered probable of being realized through future taxable profits (Note 5).

9. Goodwill and other intangible assets

		Computer software	Licences	Courseware and other	Technology	Customer Relationships	Goodwill	Total
Cost								
October 1, 2010	$	62,187	9,000	-	-	-	-	71,187
Additions		135,764	256,500	154,161	-	-	-	546,425
September 30, 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 5)		-	-	-	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
Accumulated amortization								
October 1, 2010	$	48,599	-	-	-	-	-	48,599
Amortization		31,238	16,911	5,346	-	-	-	53,495
September 30, 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
Carrying values								
October 1, 2010	$	13,588	9,000	-	-	-	-	22,588
September 30, 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
Carrying values of assets subject to finance leases								
October 1, 2010	$	2,348	-	-	-	-	-	2,348
September 30, 2011	$	1,174	-	-	-	-	-	1,174
September 30, 2012	$	587	-	-	-	-	-	587

Included in Courseware and Technology are $28,955 and $1,462,791, respectively, of internally generated additions for the year ended September 30, 2012.

In Canadian dollars

9. Goodwill and other intangible assets (continued)

For the purpose of annual impairment testing, goodwill is allocated to the operating segments expected to benefit from the synergies of the business combinations in which the goodwill arises. All goodwill recorded at September 30, 2012 has been allocated to the Coursepark Learning Services operating segment. The goodwill was tested for impairment based on conditions at the end of the reporting period. No impairment was required.

10. Property and equipment

		Computer equipment	Furniture fixtures and equipment	Vehicles	Leasehold Improvements	Total
Cost						
October 1, 2010	$	390,987	125,329	113,640	134,725	764,681
Additions		84,941	75,112	-	2,471	162,524
Additions subject to finance leases		102,814	-	-	-	102,814
September 30, 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 5)		12,907	17,471	-	7,939	38,317
September 30, 2012	$	665,763	1,185,427	113,640	274,594	2,239,424
Accumulated depreciation						
October 1, 2010	$	268,941	80,454	21,250	31,839	402,484
Depreciation		62,153	15,682	27,717	13,656	119,208
September 30, 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
Carrying values						
October 1, 2010	$	122,046	44,875	92,390	102,886	362,197
September 30, 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
Carrying values of assets subject to finance leases						
October 1, 2010	$	48,381	20,540	-	-	68,921
September 30, 2011	$	121,443	16,432	-	-	137,875
September 30, 2012	$	105,915	122,780	-	-	228,695

11. 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 September 30, 2012 was $45,000 (September 30, 2011 – $370,000).

The Company has entered into a short term non-revolving loan in the amount of $266,000. 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 September 30, 2012 was $266,000.

In Canadian dollars

12. Leases

(a) Obligations under finance leases

Certain intangibles assets and property and equipment are held under finance lease arrangements. Future minimum finance lease payments (including interest) at September 30, 2012 were as follows:

		1 year	1-5 years	>5 years
Lease payments	$	106,160	108,779	-

(b) Operating leases

The Company has entered into lease arrangements for office occupancy and equipment. Lease expense for the year ended September 30, 2012 was $489,663. Future minimum lease payments (including interest) at September 30, 2012 are as follows:

		1 year	1-5 years	>5 years
Lease payments	$	667,878	2,164,126	1,440,333

13. Long term debt

	Interest rate	Maturity		September 30 2012	September 30 2011	October 1 2010
Atlantic Canada Oportunities Agency	-	2007-2011	$	-	-	52,312
Atlantic Canada Oportunities Agency	-	2007-2011		-	-	17,463
Volkswagon Finance	4.40%	2010-2015		39,657	53,361	66,470
Toyota Financial Services	1.90%	2009-2013		11,380	21,678	31,783
Province of Newfoundland and Labrador	4.75%	2013-2016		465,942	-	-
Atlantic Canada Oportunities Agency	-	2012-2017		392,208	-	-
Government of Nova Scotia	5.00%	2013-2021		838,845	-	-
Atlantic Canada Oportunities Agency	-	2013-2018		127,164	-	-
Invest New Brunswick	-	2013-2014		221,141	-	-
				2,096,337	75,039	168,028
less: current portion				(192,534)	(24,002)	(92,989)
Total long term debt			$	1,903,803	51,037	75,039

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 year ended September 30, 2012 $260,766 has been included in income and $213,450 has been included as a reduction in the cost of property and equipment related to the discount on these loans.

During the year ended September 30, 2012, Bluedrop entered into the following long term debt arrangements:

(i) Province of Newfoundland and Labrador

On December 14, 2011, the Company received a $500,000 loan from the Province of Newfoundland and Labrador bearing interest at 4.75% per annum, interest only payable until January 1, 2013, at which time the loan is repayable in 48 blended principal and interest payments of $11,436 until maturity in December 2016. As security for the loan, the Company provided a demand promissory note, a General Security Agreement (subordinated to the Royal Bank) and a corporate Guarantee from LB2P.

(ii) Atlantic Canada Opportunities Agency (ACOA)

On April 17, 2012, the Company received the final instalment payment in connection with a $500,000 funding contribution from ACOA. The unsecured, non-interest bearing loan is repayable in monthly instalments of $8,333 commencing on October 1, 2012.

In Canadian dollars

13. Long term debt (continued)

(iii) Government of Nova Scotia

The Company has entered into an agreement whereby the Government of Nova Scotia will provide a loan of up to $1,700,000 to assist with the establishment and operation of the Bluedrop Training and Simulation Centre (BTSC) in Halifax, Nova Scotia. As security for the loan, the Company provided a first charge over the equipment financed and a General Security Agreement (subordinated to the Royal Bank and the Government of Newfoundland and Labrador).

On May 29, 2012, the Company received the first installment of $1,038,539 in connection with the agreement. The loan bears interest at 5% per annum, interest only payable until June 1, 2013, at which time the loan is repayable in 108 monthly payments of $9,616 plus interest until maturity in May 2022.

(iv) Atlantic Canada Opportunities Agency (ACOA)

On June 29, 2012, the Company received a first instalment payment in the amount of $179,087 in connection with a $469,875 funding contribution from ACOA to assist with the establishment and operation of the BTSC. The unsecured, non-interest bearing loan is repayable in monthly instalments of $7,832 commencing on October 1, 2013.

(v) Invest New Brunswick

On September 14, 2012, the Company received a $250,000 loan to assist with the establishment and operation of an office located in Miramichi, New Brunswick. The non-interest bearing loan is repayable in monthly instalments of $20,833 commencing on October 1, 2013 and a subject to a General Security Agreement.

14. Class D common shares

		September 30 2012	September 30 2011	October 1 2010
5000 Class D non-voting common shares issued to the Province of Newfoundland and Labrador at $100 each	$	-	500,000	500,000
Less proceeds held in escrow		-	(125,000)	(125,000)
	$	-	375,000	375,000

The shareholders' agreement with the Province of Newfoundland and Labrador was terminated and the Class D common shares were repurchased and cancelled in connection with the loan described in Note 13(i).

The Class D common shares were previously classified as a long term liability because they were mandatorily redeemable.

15. Provisions

(a) Conditionally-repayable grants

To September 30, 2012 the Company had recognized AIF contributions of $2,531,111 pursuant to a 2008 agreement, as amended and AIF contributions of $713,702 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:

		2012	2011
Opening balance	$	424,004	395,197
Accretion		59,361	55,328
Royalties paid or payable		(14,878)	(31,395)
Revaluation of provision		1,416	4,874
	$	469,903	424,004

In Canadian dollars

15. Provisions (continued)

(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, an entity controlled by the Company's beneficial controlling shareholder. The principal balance on the mortgage at September 30, 2012 was $1,056,500. 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 September 30, 2012 was 4.75%, and is repayable in monthly interest payments until October 2012, after which the loan is repayable in monthly principal instalments 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 years after the date of the first advance. The initial loan advance of $130,000 was received in October 2009 and the second and final loan advance of $130,000 was received in November 2010. These advances were recorded as reductions of direct labour costs.

If the loan was deemed repayable at September 30, 2012, the estimated amount owing, including accrued interest would be $288,884. Management does not anticipate any repayment will be required and as such no provision has been recorded.

16. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

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

Blue Drop Inc. - Class A common shares	**Number of Shares**		**Share capital**
Issued and outstanding at October 1, 2010 and September 30, 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, 2010 and September 30, 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.

In Canadian dollars

16. Share capital (continued)

(b) Common shares issued and outstanding (continued)

(ii) Serebra Learning Corporation prior to reverse takeover (continued):	Number of Shares	Share capital
Issued and outstanding at September 30, 2010	5,716,821	$ 10,653,168
Issued for cash under private placement, net of share issue costs	3,460,933	794,009
Exercise of warrants	491,250	216,558
Issued and outstanding at September 30, 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:	Number of Shares	Share capital
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 5)	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	98,986,609	$ 5,053,021

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

(i) Serebra Learning Corporation prior to reverse takeover:	Number of warrants	Exercise price per share
Outstanding at September 30, 2010	1,300,000	$0.40
Issued under private placement	2,680,933	$0.60
Exercised	(491,250)	$0.40
Expired	(808,750)	$0.40
Outstanding at September 30, 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:		
Outstanding share purchase warrants of Serebra brought forward	895,000	$0.60
Expired	(895,000)	$0.60
Outstanding at September 30, 2012	-	-

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

(i) Serebra Learning Corporation prior to reverse takeover:	Number of options	Exercise price per share
Outstanding at September 30, 2010	-	-
Granted	866,250	$0.40
Outstanding at September 30, 2011	866,250	$0.40
Granted	277,114	$0.40
Outstanding at January 26, 2012	1,143,364	$0.40

In Canadian dollars

16. Share capital (continued)

(d) Share options (2010 Stock Option Plan) (continued)

(ii) Bluedrop Performance Learning Inc. subsequent to reverse takeover:	**Number of options**	**Exercise price per share**
Share options of Serebra brought forward	1,143,364	$0.40
Outstanding at September 30, 2012	1,143,364	$0.40
Exercisable at September 30, 2012	1,130,895	$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. This resulted in an additional $34,241 of consideration transferred in the reverse takeover and $54,661 of share based compensation post-acquisition.

(e) Share options (2011 Stock Option Plan)	**Number of options**	**Exercise price per share**
Outstanding at September 30, 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
Outstanding at September 30, 2012	7,768,021	$0.24
Exercisable at September 30, 2012	776,802	$0.24

Pursuant to the 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 period, 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 $447,773 of share-based compensation expense in the period ended September 30, 2012 relating to the 2011 Stock Option Plan. 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.

In Canadian dollars

17. Government assistance

Government assistance includes contributions from ACOA's Atlantic Innovation Fund (AIF), the National Research Council Canada Industrial Assistance Research Program (NRC-IRAP), Invest New Brunswick and accrued SRED credits for the taxation periods ended September 30, 2010 and 2011 and January 25, 2012. In addition, financial liability discounts as a result of government loans at below-market interest rates are included in government assistance.

18. Finance costs

		2012	2011
Interest on long term debt	$	35,633	3,204
Interest on finance lease obligations		9,831	4,246
Short term interest and bank charges		39,694	11,176
Accretion of long term debt		51,890	-
Accretion of provisions		59,361	55,328
Other financing costs		13,095	2,317
Total finance costs	$	209,504	76,271

19. Changes in non-cash working capital

		2012	2011
Accounts receivable	$	(1,255,848)	296,936
Work in progress		(191,601)	48,814
Income taxes recoverable		80,869	(97,000)
Prepaid expenses		(195,651)	(62,774)
Accounts payable and accruals		454,489	186,026
Deferred revenue		(624,339)	232,605
	$	(1,732,081)	604,607
Changes in non-cash working capital related to:			
Operating activities		(1,007,504)	604,607
Investing activities		(724,577)	-
	$	(1,732,081)	604,607

20. Related party transactions

		2012	2011
Rent expense	$	231,840	165,000
Fees, salaries and benefits for key management personnel		533,830	313,133
Share based compensation		178,041	-

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 10 year lease 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 7) with LB2P and has entered into a joint and several mortgage arrangement (Note 15(b)) with LB2P.

21. Financial instruments

The Company's financial assets and liabilities are exposed to various risk factors that may affect the fair value presentation of the amount ultimately received or paid on settlement of its assets and liabilities. The Company does not currently use derivative financial instruments.

A summary of the major financial instrument risks and the Company's approach to management of these risks are outlined below:

(a) Fair value

In the event that the Company has financial instruments required to be recorded at fair value on the statement of financial position, these would be classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value estimation measurements. The fair value hierarchy has the following levels:

i) Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities.

ii) Level 2 fair value measurement are those derived from inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments at September 30, 2012 approximates their carrying value and have been determined using level 2 inputs.

(b) Interest rate risk

The Company's bank indebtedness is at a floating interest rate and as such the Company is exposed to interest rate risk. The Company's obligations under finance leases are at fixed interest rates. A significant portion of long term debt is from government entities at below-market interest rates which are fixed or are non-interest bearing. As such, the Company's exposure to fluctuations in interest rates is not considered material.

(c) Currency risk

Currency risk is the risk to the Company's earnings that arise from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to foreign currency exchange risk on transactions incurred in U.S. dollars. The exposure to currency risk is not considered material and as such the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

(d) Credit risk

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from customers. In order to reduce its credit risk, the Company reviews a new customer's credit history before extending credit and conducts regular reviews of its existing customers' credit performance. The Company's maximum exposure to credit risk corresponds to the carrying value of accounts receivable and unbilled work in progress. One customer accounted for 53% of revenue and 41% of the Company's trade receivables at September 30, 2012 (September 30, 2011 – 43% and 52%).

An allowance for doubtful accounts is established based upon factors surrounding the credit risk of specific accounts, historical trends and other information. The allowance for doubtful accounts at September 30, 2012 was $35,764 (September 30, 2011 - $35,764). At September 30, 2012 the Company's trade accounts receivable included amounts over 90 days old totaling $419,757 which were not considered to be impaired and therefore not included in the allowance for doubtful accounts (September 30, 2011 - $49,004).

In Canadian dollars

21. Financial instruments (continued)

(e) Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains a committed credit facility to ensure that it has sufficient funds to meet current and foreseeable future financial requirements at a reasonable cost. The contractual maturities (including interest payments where applicable) of the Company's financial liabilities are summarized below:

		1 year	1-5 years	>5 years
Bank indebtedness	$	419,051	-	-
Accounts payable and accruals		1,685,330	-	-
Obligations under finance leases		106,160	108,779	-
Long term debt		319,669	1,883,703	638,270
	$	2,530,210	1,992,482	638,270

22. Capital management

The Company's capital management objective is to provide returns to shareholders and benefits to other stakeholders. The capital of the Company includes obligations under finance leases, long term debt and equity (comprised of share capital, share option reserve and deficit).

The Company is not subject to any externally imposed capital requirements.

23. Expenses classified by nature

Certain expenses are classified by function in the statement of comprehensive loss. These include Direct costs, Sales and marketing, General and administration and Development costs. A schedule of these expenses presented by nature is as follows:

		2012	2011
Salaries and employee benefits	$	6,720,080	5,061,928
Materials, services and supplies		904,460	514,412
Travel and entertainment		627,014	461,203
Occupancy		509,299	285,388
Professional fees		612,469	427,474
Other costs		736,952	633,406
Total expenses classified by nature	$	10,110,274	7,383,811

In Canadian dollars

24. 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*™ is an innovative cloud-based learning management solution for individuals, corporations and other organizations. Following the commercial release of *CoursePark*™ in 2011, revenues are generated from custom courseware development, licencing and subscription fees, consulting services and sale of commercial off-the-shelf courses.

The 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:

		2012			
		CoursePark Learning Services	**Defence and Aerospace**	**Corporate and Other**	**Total**
Revenue	$	2,731,999	7,739,507	-	10,471,506
Direct costs		1,165,531	4,194,151	-	5,359,682
Gross profit		1,566,468	3,545,356	-	5,111,824
Expenses					
Sales and marketing		568,194	1,033,557	-	1,601,751
General and administration		348,300	310,465	2,490,076	3,148,841
Development costs		-	-	-	-
Government assistance		(1,270,203)	(55,050)	(43,872)	(1,369,125)
Share-based compensation		167,337	128,212	206,885	502,434
Finance costs		-	-	209,504	209,504
Depreciation and amortization		-	-	569,420	569,420
		(186,372)	1,417,184	3,432,013	4,662,825
Earnings (loss) before income taxes	$	1,752,840	2,128,172	(3,432,013)	448,999

		2011			
		CoursePark Learning Services	**Defence and Aerospace**	**Corporate and Other**	**Total**
Revenue	$	1,568,376	5,269,481	19,541	6,857,398
Direct costs		1,091,288	2,506,882		3,598,170
Gross profit		477,088	2,762,599	19,541	3,259,228
Expenses					
Sales and marketing		210,510	494,556	-	705,066
General and administration		242,176	147,536	1,553,360	1,943,072
Development costs		1,137,503	-	-	1,137,503
Government assistance		(512,364)	-	-	(512,364)
Share-based compensation		130,033	309,602	-	439,635
Finance costs		-	-	76,271	76,271
Depreciation and amortization		-	-	172,703	172,703
Loss on investments and advances		-	-	216,645	216,645
		1,207,858	951,694	2,018,979	4,178,531
Earnings (loss) before income taxes	$	(730,770)	1,810,905	(1,999,438)	(919,303)

25. Transition to IFRS

For all reporting periods up to and including the year ended September 30, 2011, the Company prepared its financial statements in accordance with Canadian GAAP. The Company has prepared financial statements which comply with IFRS for periods beginning on or after October 1, 2010 as disclosed in the accounting policies in Note 3. In preparing these financial statements, the Company's opening statement of financial position was prepared as at October 1, 2010, the Company's date of transition to IFRS.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. The impact of adoption of IFRS on the statements of financial position and comprehensive income are included below. The adoption of IFRS has not changed the Company's actual cash flows.

(a) First-time adoption exemptions

IFRS 1 First-time Adoption of International Financial Reporting Standards sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustments to assets and liabilities taken to retained earnings unless certain exemptions are applied.

Mandatory exceptions applied:

(i) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates at October 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Optional exemption applied:

(i) Share-based payments

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to equity instruments granted prior to October 1, 2010.

In Canadian dollars

25. Transition to IFRS (continued)

(b) Adjustments to the statement of financial position at October 1, 2010:

		Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ 78,798	-	78,798
Accounts receivable		2,964,145	-	2,964,145
Work in progress		347,414	-	347,414
Income taxes recoverable		-	-	-
Prepaid expenses		50,885	-	50,885
Due from related parties		-	-	-
		3,441,242	-	3,441,242
Due from related parties		10,516	-	10,516
Deferred tax asset		-	51,000	51,000
Goodwill and other intangible assets		22,588	-	22,588
Property and equipment		362,197	-	362,197
		$ 3,836,543	51,000	3,887,543
LIABILITIES AND EQUITY				
Current liabilities				
Bank indebtedness		$ -	-	-
Accounts payable and accruals		676,804	-	676,804
Deferred revenue		1,733,712	-	1,733,712
Current portion of obligations under finance leases		49,530	-	49,530
Current portion of long term debt		92,989	-	92,989
		2,553,035	-	2,553,035
Obligations under finance leases		7,450	-	7,450
Long term debt		75,039	-	75,039
Class D common shares		375,000	-	375,000
Due to related parties		8,360	-	8,360
Provisions	(i)	-	395,197	395,197
Deferred taxes		8,000	(8,000)	-
		3,026,884	387,197	3,414,081
Equity				
Share capital		80,309	-	80,309
Share option reserve		-	-	-
Deficit	(i)	729,350	(336,197)	393,153
		809,659	(336,197)	473,462
		$ 3,836,543	51,000	3,887,543

In Canadian dollars

25. Transition to IFRS (continued)

(c) Adjustments to the statement of financial position at September 30, 2011:

		Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ -	-	-
Accounts receivable		2,650,564	-	2,650,564
Work in progress		298,600	-	298,600
Income taxes recoverable		97,000	-	97,000
Prepaid expenses		113,659	-	113,659
Due from related parties		-	-	-
		3,159,823	-	3,159,823
Due from related parties		50,000	-	50,000
Deferred tax asset		-	-	-
Goodwill and other intangible assets		515,518	-	515,518
Property and equipment		508,327	-	508,327
		$ 4,233,668	-	4,233,668
LIABILITIES AND EQUITY				
Current liabilities				
Bank indebtedness		$ 411,508	-	411,508
Accounts payable and accruals		862,830	-	862,830
Deferred revenue		1,966,317	-	1,966,317
Current portion of obligations under finance leases		37,258	-	37,258
Current portion of long term debt		24,002	-	24,002
		3,301,915	-	3,301,915
Obligations under finance leases		40,822	-	40,822
Long term debt		51,037	-	51,037
Class D common shares		375,000	-	375,000
Due to related parties		1,096	-	1,096
Provisions	(i)	-	424,004	424,004
Deferred taxes		135,000	(123,000)	12,000
		3,904,870	301,004	4,205,874
Equity				
Share capital		80,309	-	80,309
Share option reserve		439,635	-	439,635
Deficit	(i)	(191,146)	(301,004)	(492,150)
		328,798	(301,004)	27,794
		$ 4,233,668	-	4,233,668

(d) Reconciliation of total comprehensive loss previously reported to the amounts reported under IFRS:

		2011
Total comprehensive loss as reported under Canadian GAAP		$ (920,496)
Accretion of provision	(i)	(55,328)
Revaluation of provision	(i)	26,521
Deferred tax recovery	(i)	64,000
Total comprehensive loss as reported under IFRS		$ (885,303)

In Canadian dollars

25. Transition to IFRS (continued)

(e) Reconciliation of equity previously reported to the amounts reported under IFRS:

			October 1, 2010			
			Share capital	**Share option reserve**	**Deficit**	**Total**
Equity as reported under Canadian GAAP		$	80,309	-	729,350	809,659
Provisions	(i)		-	-	(395,197)	(395,197)
Deferred tax	(i)		-	-	59,000	59,000
Equity as reported under IFRS		$	80,309	-	393,153	473,462

			September 30, 2011			
			Share capital	**Share option reserve**	**Deficit**	**Total**
Equity as reported under Canadian GAAP		$	80,309	439,635	(191,146)	328,798
Provisions	(i)		-	-	(424,004)	(424,004)
Deferred tax	(i)		-	-	123,000	123,000
Equity as reported under IFRS		$	80,309	439,635	(492,150)	27,794

(f) Materials adjustments to the Statement of Cash Flows

Under IFRS, interest paid and income taxes paid have been moved into the body of the Statement of Cash Flows as operating and financing activities. Under Canadian GAAP, these amount were previously disclosed as supplementary information.

(g) Notes to the reconciliations:

(i) Provisions

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. In this context "probable" means "more likely than not". Under Canadian GAAP, liabilities are recognized if it is likely that a future event will confirm that a liability has been incurred and a reasonable estimate can be made of the amounts involved. The term "likely" in this context is a higher recognition threshold than "more likely than not".

On the adoption of IFRS, the Company has recognized a provision for repayment of AIF royalties which has been considered to meet the lower recognition threshold of "probable" under IFRS. This resulted in recognition of a $395,197 provision at October 1, 2010 and $424,004 at September 30, 2012. For the year ended September 30, 2011, accretion of the provision was $55,328 which has been included in financing costs. At September 30, 2011, the provision was revalued for changes in the amount and timing of cash flows resulting in a decrease in direct costs of $26,521.

This change resulted in recognition of an additional deferred tax asset of $59,000 at October 1, 2010 and $123,000 at September 30, 2011.