

Bluedrop Performance Learning Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

Nine months ended June 30, 2014

Notice of No Auditor Review of Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of Bluedrop Performance Learning Inc. (the Company) have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, the Company discloses that its independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

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Bludrop Performance Learning Inc.

Consolidated Statements of Financial Position

Unaudited

June 30
2014

September 30
2013

In Canadian dollars

ASSETS

Current assets

| | | | |
|---|----|------------|------------|
| Cash and cash equivalents | \$ | 562,402 | 229,813 |
| Accounts receivable (Note 5) | | 3,812,463 | 3,127,292 |
| Work in progress | | 1,199,942 | 493,572 |
| Prepaid expenses | | 408,066 | 449,034 |
| Due from related parties (Note 6) | | 56,536 | 139,791 |
| | | 6,039,409 | 4,439,502 |
| Due from related parties (Note 6) | | 119,589 | 50,227 |
| Deferred tax assets | | 4,932,294 | 2,139,961 |
| Goodwill and other intangible assets (Note 7) | | 4,131,720 | 3,045,022 |
| Property and equipment (Note 8) | | 1,302,877 | 1,106,634 |
| | \$ | 16,525,889 | 10,781,346 |

LIABILITIES AND EQUITY

Current liabilities

| | | | |
|---|----|-------------|-------------|
| Accounts payable and accruals | | 3,048,770 | 1,754,576 |
| Deferred revenue | | 2,426,620 | 1,616,965 |
| Due to related parties (Note 6) | | - | 61,379 |
| Current portion of obligations under finance leases | | 59,948 | 76,790 |
| Current portion of long term debt (Note 10) | | 2,063,404 | 470,340 |
| | | 7,598,742 | 3,980,050 |
| Obligations under finance leases | | 52,102 | 35,568 |
| Long term debt (Note 10) | | 6,316,034 | 2,065,173 |
| Provisions (Note 11) | | 1,333,836 | 1,186,545 |
| Long term payables | | 49,384 | - |
| | | 15,350,098 | 7,267,336 |
| Equity | | | |
| Share capital (Note 12) | | 5,053,021 | 5,053,021 |
| Reserves (Note 12) | | 1,387,067 | 899,856 |
| Deficit | | (5,264,297) | (2,438,867) |
| | | 1,175,791 | 3,514,010 |
| | \$ | 16,525,889 | 10,781,346 |

Approved on Behalf of the Board



Derrick H. Rowe
Director



Emad Rizkalla
Director

Bluedrop Performance Learning Inc.

Consolidated Statements of Comprehensive Loss

Unaudited

Nine months ended June 30

In Canadian dollars

| | Three Months Ended June 30 | | Nine Months Ended June 30 | |
|--|-------------------------------|-----------------------------------|------------------------------|-----------------------------------|
| | 2014 | 2013 (As Restated) (Note 3) | 2014 | 2013 (As Restated) (Note 3) |
| Revenue | | | | |
| Services revenue | \$ 3,742,432 | 2,828,012 | \$ 9,270,779 | 7,501,506 |
| Product sales | 774,678 | 421,667 | 1,761,567 | 1,069,644 |
| | 4,517,110 | 3,249,679 | 11,032,346 | 8,571,150 |
| Direct costs | 2,788,041 | 1,516,345 | 6,797,545 | 4,621,470 |
| Gross profit | 1,729,069 | 1,733,334 | 4,234,801 | 3,949,680 |
| Expenses | | | | |
| Sales and marketing | 490,941 | 741,170 | 1,998,880 | 2,036,807 |
| General and administration | 1,290,049 | 1,069,298 | 3,566,470 | 2,830,395 |
| Acquisition and restructuring costs (Note 4) | 11,926 | - | 1,889,096 | - |
| Government assistance (Note 13) | (336,356) | (306,947) | (986,907) | (1,079,242) |
| Share-based compensation (Note 12) | 80,263 | 5,969 | 207,397 | 288,089 |
| Finance costs (Note 14) | 383,804 | 88,955 | 879,440 | 263,713 |
| Depreciation and amortization | 226,585 | 205,680 | 619,996 | 616,463 |
| Other gains and losses (Note 7) | (212,142) | - | (206,229) | - |
| | 1,935,070 | 1,804,125 | 7,968,143 | 4,956,225 |
| Loss before income taxes | (206,001) | (70,791) | (3,733,342) | (1,006,545) |
| Income tax recovery | | | | |
| Current | - | - | (9,579) | - |
| Deferred | (23,455) | (15,537) | (898,333) | (158,749) |
| | (23,455) | (15,537) | (907,912) | (158,749) |
| Net loss and comprehensive loss | \$ (182,546) | (55,254) | \$ (2,825,430) | (847,796) |
| Net loss per share | | | | |
| Basic | (0.0018) | (0.0006) | (0.0285) | (0.0086) |
| Diluted | (0.0018) | (0.0006) | (0.0285) | (0.0086) |
| Weighted average number of shares outstanding | | | | |
| Basic | 98,986,609 | 98,986,609 | 98,986,609 | 98,986,609 |
| Diluted | 98,986,609 | 98,986,609 | 98,986,609 | 98,986,609 |

Bluedrop Performance Learning Inc.

Consolidated Statements of Changes in Equity

Unaudited

Nine months ended June 30In Canadian dollars

| | Ordinary Common Shares | Share Capital | Share Option Reserve | Convertible Notes | Retained Earnings (Deficit) | Total |
|--|---------------------------------------|--------------------------|-------------------------------------|------------------------------|--|--------------|
| October 1, 2012 | 98,986,609 | \$ 5,053,021 | 536,675 | - | (715,257) | 4,874,439 |
| Share-based compensation | - | - | 288,089 | - | - | 288,089 |
| Loss and comprehensive loss | - | - | - | - | (847,796) | (847,796) |
| June 30, 2013 | 98,986,609 | \$ 5,053,021 | 824,764 | - | (1,563,053) | 4,314,732 |
| Share-based compensation | - | - | 75,092 | - | - | 75,092 |
| Loss and comprehensive loss | - | - | - | - | (875,814) | (875,814) |
| September 30, 2013 | 98,986,609 | \$ 5,053,021 | 899,856 | - | (2,438,867) | 3,514,010 |
| Share-based compensation | - | - | 207,397 | - | - | 207,397 |
| Issue of convertible note (Note 10(a)) | - | - | - | 279,814 | - | 279,814 |
| Loss and comprehensive loss | - | - | - | - | (2,825,430) | (2,825,430) |
| June 30, 2014 | 98,986,609 | \$ 5,053,021 | 1,107,253 | 279,814 | (5,264,297) | 1,175,791 |

Bluedrop Performance Learning Inc.

Consolidated Statements of Cash Flows

Unaudited

Nine months ended June 30

2014

2013

In Canadian dollars

(As Restated)
(Note 3)

Increase (decrease) in cash and cash equivalents

Operating activities

| | | | |
|---|----|-------------|-----------|
| Net loss for the period | \$ | (2,825,430) | (847,796) |
| Items not affecting cash: | | | |
| Share-based compensation | | 207,397 | 288,089 |
| Depreciation and amortization | | 619,996 | 616,463 |
| Non-cash government assistance | | (222,444) | (321,339) |
| Additions and revaluation of provision | | 20,422 | 16,250 |
| Finance costs | | 879,440 | 263,713 |
| Deferred taxes | | (898,333) | (158,749) |
| Loss on disposal of property and equipment | | (263,369) | - |
| Interest paid | | (30,615) | (48,107) |
| | | (2,512,936) | (191,476) |
| Changes in non-cash working capital (Note 15) | | 672,436 | (76,285) |
| | | (1,840,500) | (267,761) |

Investing activities

| | | | |
|--|--|-----------|-----------|
| Change in related party balances | | (47,486) | (69,090) |
| Net cash flow on business combinations (Note 4) | | (910,449) | - |
| Proceeds on disposal of property and equipment | | 305,528 | - |
| Purchase of property and equipment, net of government assistance | | (142,681) | 256,069 |
| Purchase of intangible assets, net of government assistance | | (167,515) | (219,555) |
| | | (962,603) | (32,576) |
| Changes in non-cash working capital (Note 15) | | 91,034 | 399,577 |
| | | (871,569) | 367,001 |

Financing activities

| | | | |
|---|--|-------------|-----------|
| Decrease in operating loan | | - | (266,000) |
| Repayment of obligations under finance leases | | (67,781) | (92,967) |
| Advances of long term debt | | 4,951,294 | 752,712 |
| Repayment of long term debt | | (1,461,019) | (103,150) |
| Repayment of royalties | | (45,751) | (58,335) |
| Decrease in long term payables | | (55,616) | - |
| Interest paid | | (276,469) | (54,404) |
| | | 3,044,658 | 177,856 |

Increase in cash and cash equivalents

| | | | |
|---|----|----------------|----------------|
| Cash and cash equivalents, beginning of period | | 229,813 | (137,916) |
| Cash and cash equivalents, end of period | \$ | 562,402 | 139,180 |

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014

In Canadian dollars

1. Nature of operations

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

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

The Company provides e-learning and course development services and offers online training solutions for businesses and individuals through *CoursePark*[™], 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 defence and aerospace operations. The Company is domiciled in Canada and its registered office is located at 18 Prescott Street, St. John's, Newfoundland and Labrador, A1C 3S4.

These financial statements were approved and authorized for issuance by the Board of Directors on August 29, 2014.

2. Basis of presentation

These condensed consolidated interim financial statements present the Company's financial position and financial results under International Financial Reporting Standards (IFRS) and in accordance with International Accounting Standard (IAS) 34 Consolidated Interim Financial Reporting using accounting policies consistent with IFRS and as issued by the International Accounting Standards Board (IASB). These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the preparation of the Company's audited annual financial statements for the year ended September 30, 2013. The condensed consolidated interim financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended September 30, 2013.

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

(a) Going concern

The consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

During the nine months ended June 30, 2014, the Company realized a net loss of \$2,825,430 and used cash flow from operations of \$1,840,500. As at June 30, 2014 the Company had a negative working capital position of \$1,559,333, including a term debt of \$1,514,888 maturing on June 30, 2015. These conditions create a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern.

A significant portion of the net loss for the nine months is a direct result of one-time acquisition and restructuring costs of \$1,889,096 associated with the business combination at December 31, 2013. Given the one time nature of the costs resulting from the business combination, management believes that it will have sufficient cash flow to meet its operating expenses in the next twelve months. However, funding from new equity or additional term debt will be required to retire the debt of \$1,514,888 due on June 30, 2015 and to fund ongoing development of the Company's technology assets.

Raising additional funding on a timely basis may be adversely impacted by uncertain market conditions and the availability of appropriate financing opportunities. The outcome of these initiatives cannot be predicted at this time.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014In Canadian dollars

3. Restatement

During the fiscal year ended September 30, 2013 the Company performed a detailed review of its accounting policies for revenue recognition including multiple-element arrangements. As a result of the review, management has determined that the Company's accounting for perpetual licenses under IFRS as presented in previously issued financial statements was not in accordance with generally accepted accounting principles. In previously reported financial statements such revenues were recognized immediately given an indefinite useful life. In the restated financial statements management has estimated a useful life based on factors specific to customer relationship periods within individual licencing arrangements. Revenue is recognized on a straight-line basis over the estimated useful life.

The impact of the above adjustments on the three and nine months ended June 30, 2013 financial results is as follows:

| | June 30 2013 | | June 30 |
|---|--------------------------------|-------------------|--------------------------|
| | Previously Reported | Adjustment | 2013 Restated |
| Statement of financial position | | | |
| Deferred revenue | 1,352,135 | 742,245 | 2,094,380 |
| Deferred tax assets and liabilities | 1,515,607 | 200,406 | 1,716,013 |
| Deficit | (1,021,214) | (541,839) | (1,563,053) |
| Statement of comprehensive loss (nine months ended June 30, 2013) | | | |
| Revenue | 8,674,111 | (102,961) | 8,571,150 |
| Income tax recovery | (130,950) | (27,799) | (158,749) |
| Net loss and comprehensive loss | (772,634) | (75,162) | (847,796) |
| Net loss per share - Basic and Diluted | (0.0078) | (0.0008) | (0.0086) |
| Statement of comprehensive loss (three months ended June 30, 2013) | | | |
| Revenue | 3,074,257 | 175,422 | 3,249,679 |
| Income tax recovery | (62,901) | 47,364 | (15,537) |
| Net loss and comprehensive loss | (183,312) | 128,058 | (55,254) |
| Net loss per share - Basic and Diluted | (0.0019) | 0.0013 | (0.0006) |

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014

In Canadian dollars

4. Business combinations

On December 31, 2013 the Company, under a Plan of Arrangement, acquired all the issued and outstanding common shares of Atlantis Systems Corp. (Atlantis), a publically traded company listed on the TSX Venture - NEX Exchange. Atlantis is a custom courseware developer and provider of training and simulation products to the defence and aerospace industry. The business combination allows the Company to facilitate continued growth in training and simulation operations in domestic markets and provides a foundation for future growth into international markets.

The cash consideration transferred in the Plan of Arrangement was \$1,000,000. The long term debt agreements of Atlantis were renegotiated concurrent with the acquisition. The Company has assumed \$2,500,000 of long term debt, \$1,000,000 of which was repaid immediately following the acquisition. The remaining principal and accrued interest is repayable on or before June 30, 2015. The term loan bears interest at 8% per annum. The debenture is convertible at a conversion price of \$0.15 per common share, being at a rate of 6,667 common shares per \$1,000 principal amount of debenture. Upon conversion, any accrued interest shall be converted into common shares at the conversion price.

The value of goodwill was calculated as the excess of the fair value of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed. This goodwill is not deductible for income tax purposes.

Provisional value of assets acquired and liabilities assumed

| | | |
|-------------------------------|----|-------------|
| Cash | \$ | 89,551 |
| Accounts receivable | | 2,031,297 |
| Work in progress | | 616,333 |
| Prepaid expenses | | 18,164 |
| Deferred tax asset | | 1,894,000 |
| Intangible Assets | | 46,193 |
| Goodwill | | 1,259,876 |
| Property plant and equipment | | 240,022 |
| Accounts payable and accruals | | (1,982,147) |
| Deferred revenue | | (673,453) |
| Long term debt | | (2,434,836) |
| Long term payables | | (105,000) |
| | \$ | 1,000,000 |

The allocation of the consideration to assets and liabilities is subject to a final determination of the fair value of selected assets and liabilities, including identification and valuation of acquired intangible assets and a final determination of the tax losses and timing differences which comprise the deferred tax asset.

Acquisition related costs in the amount of \$1,572,454 have been expensed during the nine months ended June 30, 2014. Costs include legal fees, advisory services, restructuring costs and employee termination benefits associated with the acquisition.

5. Accounts receivable

| | June 30 September 30 | |
|-----------------------|--------------------------------|-------------|
| | 2014 | 2013 |
| Trade | \$ 2,295,392 | 1,666,427 |
| Government assistance | 1,452,967 | 1,446,483 |
| Other | 64,104 | 14,382 |
| | \$ 3,812,463 | 3,127,292 |

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014In Canadian dollars

6. Related party transactions

(a) Due from (to) related parties

| | June 30 | September 30 |
|----------------------|-------------------|---------------------|
| | 2014 | 2013 |
| LB2P Holdings Inc. | \$ - | 20,202 |
| Shareholder loan | 6,309 | (61,379) |
| Share purchase loans | 169,816 | 169,816 |
| | <u>\$ 176,125</u> | <u>128,639</u> |

LB2P Holdings Inc. (LB2P) is controlled by the Company's beneficial controlling shareholder. The balance due at September 30, 2013 was non-interest bearing and has no set terms of repayment.

Shareholder loan includes a receivable from the Company's beneficial controlling shareholder. The balance due is non-interest bearing and has no set terms of repayment.

Share purchase loans are due from certain employees and directors of the Company. 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 in full on or before maturity dates ranging from January 31, 2015 to June 27, 2017.

(b) Related party transactions

| | Three months ended | | Nine months ended | |
|--|---------------------------|-------------|--------------------------|-------------|
| | June 30 | | June 30 | |
| | 2014 | 2013 | 2014 | 2013 |
| Rent expense | \$ 65,520 | 65,520 | 196,560 | 181,440 |
| Fees, salaries and benefits for key management personnel | 156,200 | 153,869 | 558,600 | 463,569 |
| Share based compensation for key management personnel | 47,512 | 8,123 | 126,755 | 117,318 |
| Termination benefits for key management personnel | - | 30,000 | - | 30,000 |

Transactions with related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Effective October 1, 2011, the Company entered into a 6 year lease, with a 4 year renewal option, with LB2P for 100% of the premises available for lease at 18 Prescott Street, St. John's, NL. The lease includes an initial net lease rate for two years with escalation provisions every two years thereafter.

Key management personnel include the President and Chief Executive Officer, the Chief Financial Officer and the directors of the Company. The Executive Chairman's fees are paid to a corporation under his control.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014

In Canadian dollars

7. Goodwill and other intangible assets

| | Computer software | Licences | Courseware and other | Technology | Customer Relationships | Goodwill | Total |
|-------------------------------|-------------------|----------|----------------------|------------|------------------------|-----------|-----------|
| Cost | | | | | | | |
| October 1, 2012 | \$ 232,659 | 265,500 | 183,116 | 1,467,113 | 585,000 | 1,415,007 | 4,148,395 |
| Additions | 22,603 | - | (2,346) | 1,084,266 | - | - | 1,104,523 |
| Government assistance | - | - | - | (593,431) | - | - | (593,431) |
| September 30, 2013 | \$ 255,262 | 265,500 | 180,770 | 1,957,948 | 585,000 | 1,415,007 | 4,659,487 |
| Additions | 23,591 | - | - | 715,383 | - | - | 738,974 |
| Disposals | - | - | (118,955) | - | - | - | (118,955) |
| Government assistance | - | - | - | (550,123) | - | - | (550,123) |
| Business combination (Note 4) | 46,193 | - | - | - | - | 1,259,876 | 1,306,069 |
| June 30, 2014 | \$ 325,046 | 265,500 | 61,815 | 2,123,208 | 585,000 | 2,674,883 | 6,035,452 |

Accumulated amortization and impairment losses

| | | | | | | | |
|--------------------|------------|---------|-----------|-----------|---------|---|-----------|
| October 1, 2012 | \$ 149,750 | 84,554 | 61,559 | 155,301 | 55,714 | - | 506,878 |
| Amortization | 44,622 | 67,642 | 61,038 | 311,697 | 83,572 | - | 568,571 |
| Impairment loss | - | 86,679 | 13,695 | 438,642 | - | - | 539,016 |
| September 30, 2013 | \$ 194,372 | 238,875 | 136,292 | 905,640 | 139,286 | - | 1,614,465 |
| Amortization | 34,307 | 26,625 | 29,739 | 240,133 | 62,679 | - | 393,483 |
| Disposals | - | - | (104,216) | - | - | - | (104,216) |
| June 30, 2014 | \$ 228,679 | 265,500 | 61,815 | 1,145,773 | 201,965 | - | 1,903,732 |

Carrying values

| | | | | | | | |
|--------------------|-----------|---------|---------|-----------|---------|-----------|-----------|
| October 1, 2012 | \$ 82,909 | 180,946 | 121,557 | 1,311,812 | 529,286 | 1,415,007 | 3,641,517 |
| September 30, 2013 | \$ 60,890 | 26,625 | 44,478 | 1,052,308 | 445,714 | 1,415,007 | 3,045,022 |
| June 30, 2014 | \$ 96,367 | - | - | 977,435 | 383,035 | 2,674,883 | 4,131,720 |

Carrying values of assets subject to finance leases

| | | | | | | | |
|--------------------|--------|---|---|---|---|---|-----|
| October 1, 2012 | \$ 587 | - | - | - | - | - | 587 |
| September 30, 2013 | \$ 294 | - | - | - | - | - | 294 |
| June 30, 2014 | \$ 184 | - | - | - | - | - | 184 |

On May 27, 2014, the Company disposed of courseware assets in exchange for proceeds of \$275,000USD. The disposed assets and proceeds, net of costs to sell, have been included in Other gains and losses on the statement of comprehensive loss.

Included in Technology are \$715,383 of internally generated additions for the nine months ended June 30, 2014.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014

In Canadian dollars

8. Property and equipment

| | Computer equipment | Furniture fixtures and equipment | Vehicles | Leasehold Improvements | Total |
|--|-----------------------|--|----------|---------------------------|-----------|
| Cost | | | | | |
| October 1, 2012 | \$ 665,763 | 1,185,427 | 113,640 | 274,594 | 2,239,424 |
| Additions | 21,650 | 43,625 | - | 23,164 | 88,439 |
| Additions subject to finance leases | 37,511 | - | - | - | 37,511 |
| Government assistance | - | (315,890) | - | - | (315,890) |
| September 30, 2013 | \$ 724,924 | 913,162 | 113,640 | 297,758 | 2,049,484 |
| Additions | 132,210 | 7,819 | - | 2,652 | 142,681 |
| Additions subject to finance lease | 67,473 | - | - | - | 67,473 |
| Disposals | - | (17,472) | (66,673) | - | (84,145) |
| Business combination (Note 4) | 156,513 | 83,509 | - | - | 240,022 |
| June 30, 2014 | \$ 1,081,120 | 987,018 | 46,967 | 300,410 | 2,415,515 |
| Accumulated depreciation | | | | | |
| October 1, 2012 | \$ 422,164 | 135,634 | 68,369 | 60,161 | 686,328 |
| Depreciation | 84,811 | 121,012 | 13,581 | 37,118 | 256,522 |
| September 30, 2013 | \$ 506,975 | 256,646 | 81,950 | 97,279 | 942,850 |
| Depreciation | 97,278 | 91,060 | 7,130 | 31,045 | 226,513 |
| Disposals | - | (5,559) | (51,166) | - | (56,725) |
| June 30, 2014 | \$ 604,253 | 342,147 | 37,914 | 128,324 | 1,112,638 |
| Carrying values | | | | | |
| October 1, 2012 | \$ 243,599 | 1,049,793 | 45,271 | 214,433 | 1,553,096 |
| September 30, 2013 | \$ 217,949 | 656,516 | 31,690 | 200,479 | 1,106,634 |
| June 30, 2014 | \$ 476,867 | 644,871 | 9,053 | 172,086 | 1,302,877 |
| Carrying values of assets subject to finance leases | | | | | |
| October 1, 2012 | \$ 105,915 | 122,780 | - | - | 228,695 |
| September 30, 2013 | \$ 103,341 | 98,224 | - | - | 201,565 |
| June 30, 2014 | \$ 144,724 | 83,490 | - | - | 228,214 |

9. Operating loans

On December 17, 2013, the Company amended its existing Credit Facilities Agreement with Royal Bank of Canada to increase its short-term bank operating line of credit to a maximum of the lesser of \$3,500,000 and defined marginable accounts receivable minus specified liabilities. 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 was undrawn at as at June 30, 2014 (September 30, 2013 – \$Nil).

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014

In Canadian dollars

10. Long term debt

| | | June 30 | September 30 |
|---|--------------|-------------|--------------|
| | Maturity | 2014 | 2013 |
| Secured term note - 4.4% | 2010-2015 \$ | - | 25,332 |
| Secured term note - 1.9% | 2009-2013 | - | 883 |
| Unsecured convertible term note - 14% | 2013-2016 | 2,758,048 | - |
| Secured convertible term note - 8% | 2013-2015 | 1,514,888 | - |
| Unsecured royalty obligation | n/a | 1,118,060 | - |
| Government assistance debt: | | | |
| Province of Newfoundland and Labrador - 4.75% | 2016-2019 | 433,274 | 410,653 |
| Atlantic Canada Opportunities Agency - non-interest bearing | 2012-2017 | 276,503 | 328,569 |
| Government of Nova Scotia - 5% | 2013-2021 | 1,329,550 | 1,162,000 |
| Atlantic Canada Opportunities Agency - non-interest bearing | 2013-2018 | 324,280 | 368,580 |
| Invest New Brunswick - non-interest bearing | 2013-2014 | 100,450 | 239,496 |
| Atlantic Canada Opportunities Agency - non-interest bearing | 2015-2019 | 256,475 | - |
| Atlantic Canada Opportunities Agency - non-interest bearing | 2015-2016 | 267,910 | - |
| | | 8,379,438 | 2,535,513 |
| less: current portion | | (2,063,404) | (470,340) |
| Total long term debt | \$ | 6,316,034 | 2,065,173 |

During the nine months ended June 30, 2014, Bluedrop entered into the following long term debt arrangements:

(a) Unsecured convertible term note - 14%

On December 30, 2013, the Company received financing of \$3,000,000 in the form of a convertible debenture. The unsecured debenture bears interest at 14% per annum, interest payable quarterly, and is repayable on December 30, 2016. The debenture is convertible at a conversion price of \$0.15 per common share, being at a rate of 6,667 common shares per \$1,000 principal amount of debenture. Upon conversion, any accrued interest shall be converted into common shares at the conversion price.

(b) Secured convertible term note - 8%

In connection with the Acquisition of Atlantis (Note 4) on December 31, 2013, the Company assumed \$2,500,000 of long term debt, \$1,000,000 of which was repaid immediately following the acquisition. The remaining principal and accrued interest is repayable on or before June 30, 2015. The term loan bears interest at 8% per annum. The debenture is convertible at a conversion price of \$0.15 per common share, being at a rate of 6,667 common shares per \$1,000 principal amount of debenture. Upon conversion, any accrued interest shall be converted into common shares at the conversion price. The note is secured under a General Security Agreement.

(c) Atlantic Canadian Opportunities Agency (ACOA) - Term Loan

During the nine months ended June 30, 2014, the Company received \$427,281 in connection with a \$500,000 funding contribution under ACOA's Business Development Program to assist with national and international commercialization activities. The unsecured, non-interest bearing loan is repayable in 60 monthly instalments of \$8,333 commencing on January 1, 2015.

(d) Unsecured royalty obligation

During the quarter ended March 31, 2014, the Company received \$1,000,000 of financing in the form of a royalty arrangement. The agreement requires Bluedrop to pay a royalty of 1.0% of revenues in exchange for the principal provided. The Company has accounted for the arrangement in accordance with *IAS 39 Financial Instruments: Recognition and Measurement*.

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

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Nine months ended June 30, 2014

In Canadian dollars

10. Long term debt (continued)

(e) Atlantic Canadian Opportunities Agency (ACOA) - Term Loan

During the quarter ended June 30, 2014, the Company received \$324,476 in connection with a \$500,000 funding contribution under ACOA's Business Development Program to assist with national and international commercialization activities. The unsecured, non-interest bearing loan is repayable in five quarterly instalments of \$100,000 commencing on January 1, 2015.

(f) Government of Nova Scotia - 5% Term Loan

During the quarter ended June 30, 2014, the Company received a final instalment of \$199,537 in connection with a \$1,700,000 term loan from the Government of Nova Scotia to assist with the establishment and operation of the BTSC. The loan bears interest at 5% per annum, interest only payable until June 1, 2013, at which time the loan was repayable in 108 monthly instalments commencing on October 1, 2013.

11. Provisions

To June 30, 2014 the Company had recognized Atlantic Canadian Opportunities Agency - Atlantic Innovation Fund (ACOA-AIF) contributions of \$2,531,111 pursuant to a 2008 agreement, as amended and ACOA-AIF contributions of \$2,507,462 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:

| | June 30 | September 30 |
|----------------------------|---------------------|---------------------|
| | 2014 | 2013 |
| Opening balance | \$ 1,186,545 | 469,903 |
| Accretion | 151,284 | 65,786 |
| Royalties paid or payable | (45,751) | (51,082) |
| Additions and revaluations | 41,758 | 701,938 |
| | \$ 1,333,836 | 1,186,545 |

12. Share capital

(a) Authorized

Unlimited common shares without par value

(b) Common shares issued and outstanding

| | Number of | Share |
|--|------------------|----------------|
| | Shares | capital |
| Issued and outstanding at October 1, 2012 | 98,986,609 | \$ 5,053,021 |
| Issued and outstanding at September 30, 2013 | 98,986,609 | 5,053,021 |
| Issued and outstanding at June 30, 2014 | 98,986,609 | \$ 5,053,021 |

(c) Share options (2010 Stock Option Plan)

| | Number of | Exercise price |
|---|------------------|-----------------------|
| | options | per share |
| Outstanding at October 1, 2012 | 1,143,364 | \$0.40 |
| Expired | (905,989) | \$0.40 |
| Outstanding and exercisable at September 30, 2013 and June 30, 2014 | 237,375 | \$0.40 |

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014

In Canadian dollars

12. Share capital (continued)

| (d) Share options (2011 Stock Option Plan) | Number of options | Exercise price per share |
|--|-------------------|--------------------------|
| Outstanding at September 30, 2012 | 7,768,021 | \$0.24 |
| Forfeitures | (1,318,875) | \$0.19 |
| Expired | (288,375) | \$0.22 |
| Outstanding at September 30, 2013 | 6,160,771 | \$0.18 |
| Granted | 9,248,284 | \$0.13 |
| Forfeitures | (456,400) | \$0.24 |
| Expired | (165,600) | \$0.26 |
| Outstanding at June 30, 2014 | 14,787,055 | \$0.18 |
| Exercisable at June 30, 2014 | 3,675,414 | \$0.22 |

Pursuant to the 2011 Stock Option Plan, the Company has reserved a maximum of 16,827,718 of common shares of the Company for issuance on the exercise of share options. 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 \$207,397 of share-based compensation expense in the nine months ended June 30, 2014 relating to the 2011 Stock Option Plan (June 30, 2013 - \$288,089). 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 in the nine months ended June 30, 2014:

| | |
|---------------------------------------|-----------|
| Risk free interest rate | 1.35% |
| Expected dividend yield | 0% |
| Share price volatility | 40% |
| Expected life | 3.6 years |
| Average fair value of options granted | \$0.0403 |

13. Government assistance

| | Three months ended June 30 | | Nine months ended June 30 | |
|--|-------------------------------|---------|------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| ACOA-AIF contributions | \$ 158,345 | 288,000 | 638,345 | 822,896 |
| less: additions and revaluation of ACOA-AIF provision | (9,382) | - | (41,758) | (16,250) |
| National Research Council - Industrial Research Assistance Program | 64,890 | 17,077 | 111,835 | 134,204 |
| Invest New Brunswick | (5,000) | 28,030 | 83,147 | 91,009 |
| Scientific Research and Experimental Development credits | 156,296 | 84,000 | 276,296 | 254,000 |
| Nova Scotia Digital Media Tax Credits | 87,903 | 60,000 | 199,503 | 303,795 |
| Nova Scotia Capital Investment Incentive | - | - | - | 177,766 |
| Discounts on below-market interest rate financial liabilities | 96,933 | 168,964 | 222,444 | 321,339 |
| | \$ 549,985 | 646,071 | 1,489,812 | 2,088,759 |
| Government assistance included in: | | | | |
| Net earnings | 336,356 | 306,947 | 986,907 | 1,079,242 |
| Deferred revenue | (15,739) | - | (47,218) | - |
| Intangible assets | 229,368 | 201,000 | 550,123 | 693,627 |
| Property and equipment | - | 138,124 | - | 315,890 |
| | \$ 549,985 | 646,071 | 1,489,812 | 2,088,759 |

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014

In Canadian dollars

14. Finance costs

| | Three months ended June 30 | | Nine months ended June 30 | |
|---------------------------------------|-------------------------------|--------|------------------------------|---------|
| | 2014 | 2013 | 2014 | 2013 |
| Interest on long term debt | \$ 158,602 | 16,563 | 335,696 | 54,231 |
| Interest on finance lease obligations | 1,229 | 2,151 | 4,060 | 7,010 |
| Short term interest and bank charges | 11,927 | 10,987 | 31,279 | 40,840 |
| Accretion of long term debt | 162,308 | 42,234 | 357,785 | 105,025 |
| Accretion of provisions | 50,428 | 16,446 | 151,284 | 49,340 |
| Other financing costs | (690) | 574 | (664) | 7,267 |
| Total finance costs | \$ 383,804 | 88,955 | 879,440 | 263,713 |

15. Changes in non-cash working capital

| | 2014 | 2013 |
|---|--------------|-----------|
| Accounts receivable | \$ 1,346,126 | 606,144 |
| Work in progress | (90,037) | 8,694 |
| Income taxes recoverable | - | 16,131 |
| Prepaid expenses | 59,132 | 89,285 |
| Accounts payable and accruals | (687,953) | (172,224) |
| Deferred revenue | 136,202 | (224,738) |
| | \$ 763,470 | 323,292 |
| Changes in non-cash working capital related to: | | |
| Operating activities | 672,436 | (76,285) |
| Investing activities | 91,034 | 399,577 |
| | \$ 763,470 | 323,292 |

16. Expenses classified by nature

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

| | Three months ended June 30 | | Nine months ended June 30 | |
|-------------------------------------|-------------------------------|-----------|------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Salaries and employee benefits | \$ 3,210,713 | 2,305,393 | 8,796,100 | 6,436,217 |
| Materials, services and supplies | 534,895 | 325,691 | 1,225,651 | 1,037,987 |
| Travel and living | 173,589 | 131,307 | 422,114 | 404,671 |
| Occupancy | 242,141 | 155,108 | 689,173 | 497,328 |
| Professional fees | 130,709 | 127,466 | 400,454 | 323,544 |
| Other costs | 271,071 | 281,848 | 829,403 | 788,925 |
| Total expenses classified by nature | \$ 4,563,118 | 3,326,813 | 12,362,895 | 9,488,672 |

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014

In Canadian dollars

17. Segment reporting

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

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

Segment profit or loss includes revenues and costs directly attributable to the operations of the segment. In addition management allocates a portion of shared administrative costs based on the attributable office space of those segments. Segment information for the reporting periods are as follows:

| | Nine months ended June 30, 2014 | | | |
|-------------------------------------|---------------------------------|----------------------------------|---------------------|--------------------|
| | Bluedrop Learning Networks | Bluedrop Training and Simulation | Corporate and Other | Total |
| Revenue | \$ 2,865,148 | 8,167,198 | - | 11,032,346 |
| Direct costs | 995,558 | 5,801,987 | - | 6,797,545 |
| Gross profit | 1,869,590 | 2,365,211 | - | 4,234,801 |
| Expenses | | | | |
| Sales and marketing | 1,285,743 | 705,508 | 7,629 | 1,998,880 |
| General and administration | 678,129 | 878,025 | 2,010,316 | 3,566,470 |
| Acquisition and restructuring costs | 186,000 | (64,246) | 1,767,342 | 1,889,096 |
| Government assistance | (323,807) | (328,821) | (334,279) | (986,907) |
| Share-based compensation | 60,138 | (9,604) | 156,863 | 207,397 |
| Finance costs | - | - | 879,440 | 879,440 |
| Depreciation and amortization | 413,198 | 121,396 | 85,402 | 619,996 |
| Other gains and losses | (211,011) | (1,131) | 5,913 | (206,229) |
| | 2,088,390 | 1,301,127 | 4,578,626 | 7,968,143 |
| Loss before income taxes | \$ (218,800) | 1,064,084 | (4,578,626) | (3,733,342) |

| | Three months ended June 30, 2014 | | | |
|--|----------------------------------|----------------------------------|---------------------|------------------|
| | Bluedrop Learning Networks | Bluedrop Training and Simulation | Corporate and Other | Total |
| Revenue | \$ 864,239 | 3,652,871 | - | 4,517,110 |
| Direct costs | 349,901 | 2,438,140 | - | 2,788,041 |
| Gross profit | 514,338 | 1,214,731 | - | 1,729,069 |
| Expenses | | | | |
| Sales and marketing | 249,067 | 236,465 | 5,409 | 490,941 |
| General and administration | 156,187 | 331,229 | 802,633 | 1,290,049 |
| Acquisition and restructuring costs | - | (134,663) | 146,589 | 11,926 |
| Government assistance | 42,688 | (217,221) | (161,823) | (336,356) |
| Share based compensation | 17,645 | 6,860 | 55,758 | 80,263 |
| Finance costs | - | - | 383,804 | 383,804 |
| Depreciation and amortization | 142,778 | 47,902 | 35,905 | 226,585 |
| Other gains and losses | (211,011) | (1,131) | - | (212,142) |
| | 397,354 | 269,441 | 1,268,275 | 1,935,070 |
| Earnings (loss) before income taxes | \$ 116,984 | 945,290 | (1,268,275) | (206,001) |

Bluedrop Performance Learning Inc.

Notes to Condensed Consolidated Interim Financial Statements

Unaudited

Nine months ended June 30, 2014

In Canadian dollars

17. Segment reporting (continued)

| | Nine months ended June 30, 2013 | | | |
|--|---------------------------------|----------------------------------|---------------------|--------------------|
| | Bluedrop Learning Networks | Bluedrop Training and Simulation | Corporate and Other | Total |
| Revenue | \$ 2,658,545 | 5,912,605 | - | 8,571,150 |
| Direct costs | 1,068,961 | 3,552,509 | - | 4,621,470 |
| Gross profit | 1,589,584 | 2,360,096 | - | 3,949,680 |
| Expenses | | | | |
| Sales and marketing | 1,197,793 | 829,812 | 9,202 | 2,036,807 |
| General and administration | 654,148 | 487,963 | 1,688,284 | 2,830,395 |
| Government assistance | (575,155) | (379,836) | (124,251) | (1,079,242) |
| Share based compensation | 77,531 | 66,432 | 144,126 | 288,089 |
| Finance costs | - | - | 263,713 | 263,713 |
| Depreciation and amortization | 422,849 | 135,158 | 58,456 | 616,463 |
| | 1,777,166 | 1,139,529 | 2,039,530 | 4,956,225 |
| Earnings (loss) before income taxes | \$ (187,582) | 1,220,567 | (2,039,530) | (1,006,545) |

| | Three months ended June 30, 2013 | | | |
|--|----------------------------------|----------------------------------|---------------------|------------------|
| | Bluedrop Learning Networks | Bluedrop Training and Simulation | Corporate and Other | Total |
| Revenue | \$ 1,155,141 | 2,094,538 | - | 3,249,679 |
| Direct costs | 318,845 | 1,197,500 | - | 1,516,345 |
| Gross profit | 836,296 | 897,038 | - | 1,733,334 |
| Expenses | | | | |
| Sales and marketing | 532,805 | 208,257 | 108 | 741,170 |
| General and administration | 242,116 | 121,340 | 705,842 | 1,069,298 |
| Government assistance | (199,030) | (90,840) | (17,077) | (306,947) |
| Share based compensation | 4,180 | (12,562) | 14,351 | 5,969 |
| Finance costs | - | - | 88,955 | 88,955 |
| Depreciation and amortization | 143,521 | 41,641 | 20,518 | 205,680 |
| | 723,592 | 267,836 | 812,697 | 1,804,125 |
| Earnings (loss) before income taxes | \$ 112,704 | 629,202 | (812,697) | (70,791) |

18. Comparative figures

Comparative figures have been reclassified to conform with the June 30, 2014 statement of comprehensive loss presentation. Presentation changes include reclassification of certain labour costs previously classified as general and administration to direct costs and reclassification of revaluation of the AIF provision from direct costs to government assistance.