

ID Watchdog, Inc.
Management's Discussion and Analysis
For the Three Months Ended March 31, 2015

Introduction

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of ID Watchdog, Inc.'s (the "Company's" or the "Company") consolidated results of operations and financial position. This "Management's Discussion and Analysis" ("MD&A") should be read in conjunction with the unaudited consolidated interim condensed financial statements of the Company for the three months ended March 31, 2015 and the notes thereto. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in U.S. dollars as all of the Company's revenues and expenses are recorded in U.S. dollars. Additional information on the Company, including the Company's audited financial statements for the year ended December 31, 2014, can be accessed from SEDAR at www.sedar.com as well as from the Company's website at www.idwatchdog.com in the "Company Overview" section. Information contained in this report is qualified by reference to the discussion concerning forward-looking information and statements beginning on page 19 of this MD&A.

International Financial Reporting Standards ("IFRS")

The Company's unaudited consolidated interim condensed financial statements and the financial information included in this MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective as of May 21, 2015.

Except as otherwise noted, this MD&A is presented in U.S. dollars, which is the Company's functional currency.

Definitions Relative to Understanding our Results

Earnings before net interest expense, income taxes, and depreciation and amortization expense ("EBITDA").

Earnings before net interest expense, income taxes, depreciation and amortization, share-based compensation and gain (loss) on warrant liability ("adjusted EBITDA").

We report on our adjusted EBITDA and use this metric to measure the performance of our business. Adjusted EBITDA is not a performance measure defined under IFRS and is not considered an alternative to income (loss) from operations or net earnings (loss) in the context of measuring the Company's performance. Adjusted EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publically traded companies. Adjusted EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, taxes, interest payments, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed on pages 10, 11 and 12 of this MD&A.

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Background and Description of Business

Through the distribution channels described below in the section, "Marketing of Services", the Company delivers a variety of identity theft detection, protection and resolution services primarily to individuals and families on a subscription basis, through its wholly owned subsidiary, Identity Rehab Corporation, which was founded in 2005.

Identity theft occurs when someone fraudulently uses personal identifying information (e.g. name, birth date, social security number, credit card number) to obtain goods or services under the identity theft victim's name. Identity theft is one of the fastest growing crimes in the United States.

We have developed comprehensive solutions that incorporate elements from six distinct categories designed to work together to detect, diagnose, and resolve consumer identity theft and other consumer data issues as follows:

- **Identity Monitoring:** ID Watchdog's identity monitoring service will scan public and private consumer databases generating client alerts of suspicious activity associated with name, address, phone number, date of birth, and social security number.
- **Cyber Monitoring:** Our service will scan known malicious chat rooms, blogs, and underground websites for client name, credit card information, and social security number that can be bought and sold for fraudulent usage.
- **Non-Credit Loan Monitoring:** This service will monitor data feeds from non-credit loan outlets which may provide applicants a loan of up to \$1,000 while requiring only an address and proof of employment.
- **Credit Reports and Credit Scores:** We provide online access to credit reports and credit scores from Experian, TransUnion and Equifax to check the validity and accuracy of client account information.
- **Credit Monitoring:** We will monitor daily for changes to the customer's credit reports from Experian, Equifax, and TransUnion. There are twenty-six different alert types that can detect potential fraudulent activity.
- **Resolution Services:** In cases where identity theft is detected, our resolution service will find it, stop it, and fix it before any further significant damage occurs. Identity theft cases are assigned to a dedicated in-house staff of identity theft resolution experts.

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Marketing of Services

We utilize strategic partner distribution channels to assist us in selling our identity theft protection services to our partners' customer bases. Our primary distribution channels are as follows:

- **Employee Benefit Channel:** We acquire these customers through relationships with benefit brokers and other entities that focus on designing and negotiating customized employee benefit programs for their employer clients ("Benefit Brokers"). In this channel, our Benefit Broker partners promote our services to their employer clients who then offer our services as a voluntary benefit to their employees (the "Employee Benefit Channel"). We continue to expand this sales channel and ultimately our customer base by significantly expanding the number of Benefit Broker relationships and the depth and breadth of our relationships within these Benefit Brokers. We commenced these expansion efforts in the second quarter of 2012 and we are in midway through the process of building a nationwide network of these Benefits Brokers. We focus substantially all of our efforts to develop and expand the Employee Benefit Channel and anticipate that this channel will generate virtually all of our revenue growth in the foreseeable future.
- **Tech Support Channel:** In this channel, we utilize third-party entities, who provide personal computer performance enhancement services (the "Sales Affiliates"), to sell our services as an add-on product offering directly to their customers (the "Tech Support Channel"). In conjunction with the Sales Affiliates, we also utilize a third-party vendor (the "Billing Vendor") to bill, process and collect payments from the customers who are sold their subscriptions to our services by the Sales Affiliates. In addition, the Billing Vendor pays the Sales Affiliates a fee for each sale, as agreed upon by the Company and the Sales Affiliate, and remits the balance of the revenue to the Company, net of the Billing Vendor's per transaction processing fee.
- **Consumer Marketing and Other Channels:** In the past, the Company utilizes direct consumer advertising, telemarketing and online affiliate marketing programs to sell its services (the "Consumer Marketing Channel"). While the Company no longer utilized these strategies to sell its services, we still provide services to subscribers that were sold their subscriptions through the Consumer Marketing Channel.

Also included in this category are customers which we acquired in May 2013 from the purchase of certain assets from iSekurity and customers the Company has acquired by partnering with anti-virus and other desktop software providers who provide our identity theft protection services as an add-on product offering to their end user customers.

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Balance Sheet Data

	As of March 31, 2015	As of December 31, 2014
	(Unaudited)	(Audited)
Cash and cash equivalents	\$ 933,054	\$ 886,476
Total assets	1,431,444	1,281,056
Total long term liabilities	4,813,680	4,876,529
Total liabilities	6,409,561	6,378,402
Total shareholders' deficit	(4,978,117)	(5,097,346)

Results of Operations

The financial information set out below is based on and derived from our unaudited consolidated interim condensed statements of operations for the three month periods ended March 31, 2015 and 2014.

	For the Three Months Ended March 31,	
	2015	2014
	(Unaudited)	(Unaudited)
Revenue	\$ 1,269,686	\$ 790,627
Cost of services	347,649	248,830
Gross profit	922,037	541,797
Operating expense	784,254	561,063
Operating income (loss)	137,783	(19,266)
Adjusted EBITDA	162,288	58,743
Net income (loss) and comprehensive income (loss) applicable to ordinary shares	\$ 104,936	\$ (36,064)
Basic and diluted net income (loss) per share	\$ *	\$ *

* Per share income (loss) is less than \$0.01 and \$(0.01), respectively.

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Summary of Quarterly Results (Unaudited)

	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>September 30, 2014</u>	<u>June 30, 2014</u>
Revenue	\$ 1,269,686	\$ 948,836	\$ 887,685	\$ 842,320
Cost of revenue.....	347,649	254,706	231,938	253,562
Gross profit.....	922,037	694,130	655,747	588,758
Operating expense:				
General and administrative.....	331,226	268,340	356,122	300,236
Sales and marketing.....	428,523	239,184	196,306	173,435
Share-based compensation.....	14,293	18,154	24,029	35,159
Depreciation and amortization....	10,212	11,513	14,597	15,136
	<u>784,254</u>	<u>537,191</u>	<u>591,054</u>	<u>523,966</u>
Operating income	137,783	156,939	64,693	64,792
Other income (expense).....	(32,847)	233,467	(289,884)	(373,005)
Net income (loss) and comprehensive income (loss) applicable to ordinary shares....	<u>\$ 104,936</u>	<u>\$ 390,406</u>	<u>\$ (225,191)</u>	<u>\$ (308,213)</u>
Basic and diluted net income (loss) per share	<u>\$ *</u>	<u>\$ *</u>	<u>\$ *</u>	<u>\$ *</u>

* Per share income (loss) is less than \$0.01 and \$(0.01), respectively.

Reconciliation of Net Loss to Adjusted EBITDA

Net income (loss).....	\$ 104,936	\$ 390,406	\$ (225,191)	\$ (308,213)
Depreciation and amortization expense.....	10,212	11,513	14,597	15,136
Interest expense, net.....	232,506	205,782	210,021	213,278
EBITDA.....	347,654	607,701	(573)	(79,799)
Loss (gain) on warrant liability.....	(199,659)	(439,249)	79,863	159,727
Share-based compensation expense.....	14,293	18,154	24,029	35,159
Adjusted EBITDA.....	<u>\$ 162,288</u>	<u>\$ 186,606</u>	<u>\$ 103,319</u>	<u>\$ 115,087</u>

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Summary of Quarterly Results (Unaudited)

	<u>March 31, 2014</u>	<u>December 31, 2013</u>	<u>September 30, 2013</u>	<u>June 30, 2013</u>
Revenue	\$ 790,627	\$ 678,911	\$ 596,680	\$ 528,196
Cost of revenue.....	248,830	206,894	241,431	247,022
Gross profit.....	<u>541,797</u>	<u>472,017</u>	<u>355,249</u>	<u>281,174</u>
Operating expense:				
General and administrative.....	340,857	278,421	275,018	306,618
Sales and marketing	142,197	178,246	163,985	115,794
Share-based compensation.....	59,779	246,315	29,166	43,655
Depreciation and amortization....	18,230	17,182	23,479	22,778
	<u>561,063</u>	<u>720,164</u>	<u>491,648</u>	<u>488,845</u>
Operating loss.....	(19,266)	(248,147)	(136,399)	(207,671)
Other income (expense).....	(16,798)	(830,593)	(183,744)	(177,607)
Net loss and comprehensive loss applicable to ordinary shares...	<u>\$ (36,064)</u>	<u>\$ (1,078,740)</u>	<u>\$ (320,143)</u>	<u>\$ (385,278)</u>
Basic and diluted net loss per share	<u>\$ *</u>	<u>\$ *</u>	<u>\$ *</u>	<u>\$ *</u>

* Per share income (loss) is less than \$0.01 and \$(0.01), respectively.

Reconciliation of Net Loss to Adjusted EBITDA

Net loss.....	\$ (36,064)	\$ (1,078,740)	\$ (320,143)	\$ (385,278)
Depreciation and amortization expense.....	18,230	17,182	23,479	22,778
Interest expense, net.....	<u>216,456</u>	<u>211,651</u>	<u>203,710</u>	<u>198,426</u>
EBITDA.....	198,622	(849,907)	(92,954)	(164,074)
Loss (gain) on warrant liability.....	(199,658)	618,942	(19,966)	(20,819)
Share-based compensation expense.....	<u>59,779</u>	<u>246,315</u>	<u>29,166</u>	<u>43,655</u>
Adjusted EBITDA.....	<u>\$ 58,743</u>	<u>\$ 15,350</u>	<u>\$ (83,754)</u>	<u>\$ (141,238)</u>

The previous quarterly information has been prepared by management in accordance with IFRS, except for EBITDA and adjusted EBITDA (see Definitions Relative to Understanding our Results on page 1 of this MD&A).

Revenues have increased consistently beginning in the second quarter of 2013 due to increased revenue from our Employee Benefit and Tech Support Channels as well as from the purchase of iSecurity customers in May 2013.

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General and administrative expense has fluctuated from quarter to quarter generally due to changes in professional services and travel related expenses. Also, general and administrative expense has increased in the first quarter of each year as we incur substantially all of our annual independent audit fees in the first quarter.

Sales and marketing expense has fluctuated from quarter to quarter generally due to the level of marketing activities during the particular quarter and from travel related expenses. Also, an increasing percentage of our sales and marketing expense are commissions paid to our Benefit Brokers, which will increase as our Employee Benefit Channel revenues increase.

Adjusted EBITDA and operating income (loss) have generally improved quarter to quarter as we have benefited from increasing revenues, improving gross margins and reduced operating expenses.

Our net income (loss) has changed significantly from quarter to quarter primary due to the recognition of gain (loss) on warrant liabilities and from declining operating losses or increasing operating income.

Results of Operations

Revenues

Revenue increased \$479,059, or 60.6%, from \$790,627 for the first quarter of 2014 to \$1,269,686 for the first quarter of 2015.

Revenue from our Employee Benefit Channel increased \$512,449, or 138.4%, from \$370,305 for the quarter ended March 31, 2014 to \$882,754 for the quarter ended March 31, 2015. The increase in our Employee Benefit Channel revenue from the first quarter of 2014 to the first quarter of 2015 was the result of a 138% increase in the monthly average number of customers subscribing to our services, while the monthly average revenue per customer was essentially unchanged. This increase in customers in this channel is the result of our continuing efforts to expand our network of Benefit Brokers who promote our services to their employer clients.

Revenue from our Tech Support Channel increased \$2,120, or 1.1%, from \$189,382 for the quarter ended March 31, 2014 to \$191,502 for the quarter ended March 31, 2015. While revenue from this channel increased modestly in the first quarter of 2015 as compared to the similar period in the prior year, the monthly average number of customers subscribing to our services increased by 97%, but the increase in revenue from these additional customers was almost entirely offset by a 49% decrease in the average subscription rates.

On November 21, 2014 (the "Termination Date"), we terminated our sales and revenue sharing arrangement with our principal Sales Affiliate and as a result, we do not expect any new customer subscription activity in this channel for the foreseeable future. Also, as a result of this termination, we no longer pay the Sales Affiliate a revenue share on Tech Support Channel sales, which served to increase our monthly average revenue per customer subsequent to the Termination Date (see Contingencies on page 15 of this MD&A). However, as we are not

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adding any new customers in this channel and a significant number of our existing customers don't renew their subscriptions upon expiration, the monthly average number of customers subscribing to our services will decrease, which will likely result in a 25% to 35% decrease in Tech Support Channel revenue in 2015 as compared to 2014.

Revenue from our Consumer Marketing and Other Channels, which includes revenue for our consumer marketing customers, customers we purchased from iSecurity in May 2013 and our anti-virus partner customers, decreased \$35,510, or 15.4%, from \$230,940 for the quarter ended March 31, 2014 to \$195,430 for the quarter ended March 31, 2015. This decrease was due primarily to a decrease in the number of iSecurity customers.

Cost of Revenue

Cost of revenue consists primarily of the following:

- Fees paid to data providers; and
- Cost of personnel and other related costs incurred for customer identity monitoring and resolution.

Cost of revenue for the first quarter of 2015 was \$347,649, resulting in a gross profit of \$922,037, while the cost of revenue for the first quarter of 2014, was \$248,830, resulting in a gross profit of \$541,797. The gross margin for the first quarter of 2015 was 72.6% as compared to a gross margin of 68.5% for the first quarter of 2014.

The increase in cost of revenue is primarily the result of a \$54,487 increase in data services expenses and a \$39,261 increase in personnel related expenses. While our data costs increased as a result of a significant increase in the number of customers during the first quarter, our data costs as a percent of revenue decreased to 14.7% in the first quarter of 2015 from 16.7% in the prior year period, which contributed to the increase in gross margin. Personnel related expenses increased as a result of increased staffing levels in order to service a growing customer base.

General and Administrative Expense

General and administrative expense consists primarily of the following:

- All salaries and related benefits (excluding marketing salaries, related benefits and share – based compensation);
- Professional services expenses including legal fees, accounting fees and other professional services;
- Office rent and other office related costs; and
- Other administrative expenses.

General and administrative expense decreased \$9,631, or 2.8%, from \$340,857 during the first quarter of 2014 to \$331,226 during the first quarter of 2015. There were no meaningful

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changes to individual categories within general and administrative expenses during the first quarter of 2015 as compared to the similar period in 2014. Over the short term, general and administrative expense should remain relatively constant quarter to quarter with meaningful fluctuations driven primarily from professional services related activities. Over the longer term, general and administrative expense should increase modestly as our revenues increase.

Sales and Marketing Expense

Sales and marketing expense consists primarily of the following:

- Third party benefit broker commissions;
- Salaries, commissions and benefits of sales and marketing personnel;
- Marketing and promotional materials; and
- Other marketing expenses.

Sales and marketing expense for the first quarter of 2015 totalled \$428,523 as compared to \$142,197 for the similar period in 2014, an increase of \$286,326, or 201.4%. The significant items contributing to this increase are as follows:

- A \$146,424 increase in third party benefit broker commissions due to increased Employee Benefit Channel revenue;
- A \$98,827 increase in personnel related expenses due to the hiring of additional account management personnel and increased sales commission expense; and
- A \$18,821 increase in travel and entertainment expenses.

Adjusted EBITDA

For the first quarter of 2015, adjusted EBITDA improved by \$103,545 to \$162,288 as compared with \$58,743 for the similar period in 2014, resulting in adjusted EBITDA margins of 12.8% and 7.4% for the first quarter of 2015 and 2014, respectively. The improvement in adjusted EBITDA is due primarily to the \$380,240 improvement in gross margin as described above, which was partially offset by an increase in sales and marketing expenses.

Share-based Compensation

The Company follows IFRS 2 "Stock-based compensation and other stock-based payments", which established standards for the recognition, measurement and disclosure of share-based compensation. The Company accounts for share-based payments as equity settled transactions where the fair value of options granted is charged to expense over the option vesting period, with the offsetting amount recognized in contributed surplus. For awards with graded vesting, each tranche of an award is considered a separate grant with a different vesting date and fair value. The fair value of each tranche is recognized over its respective vesting period. The fair value of each tranche is estimated at the date of grant using the Black-Scholes option pricing model incorporating assumptions regarding risk-free interest rates, dividend yield, expected volatility of the Company's ordinary shares, and a weighted average expected life of options. A forfeiture rate is estimated on the grant date and is adjusted to

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reflect the actual number of options that vest. For each reporting period, the Company reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision in the consolidated statement of operations with a corresponding adjustment to share capital.

Share compensation expense will vary from year to year based on the number and timing of stock option grants, the fair value of the stock options granted and the vesting terms of the stock option grants, among other factors.

Share-based compensation expense for the first quarter of 2015 totalled \$14,293 as compared to \$59,779 for the similar period in 2014, a decrease of \$45,486, or 76.1%.

Interest Expense

Interest expense includes dividends on the Series C Preferred shares, which accrue at 8% per annum, amortization of the liquidation preferences on the Series C Preferred shares, amortization of the offering costs incurred for the issuance of the Series C Preferred shares, amortization of Credit Facility costs and interest on the Company's Credit Facility and on its financing lease.

Interest expense for the three months ended March 31, 2015 and 2014 consisted of the following:

	For the Three Months Ended March 31,	
	2015	2014
Accrued dividends on Series C Preferred Shares.....	\$ 61,470	\$ 61,470
Amortization of Series C Preferred liquidation preference.....	43,012	43,012
Amortization of fair value of Series C Preferred detachable warrants	47,087	47,087
Amortization of offering costs.....	28,727	28,727
Interest expense on Credit Facility and finance lease, net.....	10,763	18,412
Amortization of deferred financing fees.....	41,447	17,757
Total.....	\$ 232,506	\$ 216,465

Gain (Loss) on Warrant Liabilities

Certain of our warrant agreements contain anti-dilution provisions, which if triggered by the issuance by the Company of equity securities below certain levels as defined in the individual warrant agreement, may result in a reduction of the exercise price of the warrants. We have recorded these warrants as warrant liability at fair value in the accompanying consolidated statements of financial position. The warrant liability is measured at estimated fair value with subsequent changes in fair value recorded as a gain or loss in the consolidated statements of

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operations until such time as the warrants are exercised, expire or are permitted to be classified in shareholders' equity.

During the first quarter of 2015 and 2014, we recognized non-cash gains from the change in the fair value of these warrants of \$199,659 and \$199,658, respectively.

These gains are the result of decreases in the fair value of these warrants driven primarily by changes in the share price of the Company's Ordinary Shares, a decrease of the remaining terms of the warrants and other factors.

Liquidity and Capital Resources

	<u>As of March 31, 2015</u>	<u>As of December 31, 2014</u>
Current Assets		
Cash and cash equivalents	\$ 933,054	\$ 886,476
Accounts receivable, net	285,780	168,602
Prepaid expenses	117,769	123,617
	<u>1,336,603</u>	<u>1,178,695</u>
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,018,420	\$ 961,726
Deferred revenue	439,430	439,794
Current portion of long-term debt	138,031	100,353
	<u>1,595,881</u>	<u>1,501,873</u>
Net Working Capital	<u><u>\$ (259,278)</u></u>	<u><u>\$ (323,178)</u></u>

As of March 31, 2015, cash and cash equivalents totalled \$933,054 compared to \$886,476 as of December 31, 2014. Net working capital at March 31, 2015 was \$(259,278) compared to \$(323,178) at December 31, 2014, or an improvement of \$63,900 in net working capital.

For the three months ended March 31, 2015 and 2014, net cash provided by operating activities totalled \$152,055 and \$278,492, respectively. The decrease in cash provided by operating activities, when comparing the two periods, was primarily the result of a \$127,646 increase in deferred revenue in 2014 as compared to a \$346 decrease in 2015. As a result of our November 2014 termination of our principal Sales Affiliate for the Tech Support Channel, who primarily sold our six and twelve month identity theft protection service subscriptions, we are no longer experiencing increases in deferred revenue and we anticipate that deferred revenue will continue to decline through the balance of 2015 as a result of this termination.

For the three months ended March 31, 2015 and 2014, net cash used in investing activities totalled \$2,692 and \$5,423, respectively. Cash flows used in investing activities in both 2015 and 2014 were for capital expenditures.

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Cash flows used in financing activities totalled \$102,785 and \$31,897 for the three months ended March 31, 2015 and 2014, respectively, and are as follows:

	Three Months Ended March 31,	
	2015	2014
Repayments on Credit Facility.....	\$ (48,986)	\$ (28,542)
Credit Facility fees	(50,000)	—
Repayment of finance lease obligation.....	(3,799)	(3,355)
Net cash used in financing activities	\$ (102,785)	\$ (31,897)

Commitments

On November 19, 2012, the Company entered into a two year agreement with a certain data provider, which was effective on January 1, 2013, and requires the Company to pay a monthly fee based on the greater of actual data usage priced at contractual rates or \$10,000 per month. In October 2014, this data agreement was amended to extend the expiration date to September 30, 2017, modify certain pricing elements and to adjust the monthly fee to an amount equal to the greater of the actual data usage priced at the contractual rates or \$25,000 per month. These amendments were effective October 1, 2014.

The Company entered into a two year agreement with a data provider which was effective on April 1, 2014, and requires the Company to pay a monthly fee based on the greater of actual data usage priced at contractual rates or \$3,000 beginning on May 1, 2014. In October 2014, the Company entered into an additional one year agreement with this data provider which was effective on October 1, 2014, and requires the Company to pay a monthly fee based on the greater of actual data usage priced at contractual rates or \$2,000 per month.

In September 2014, the Company entered into an agreement to lease office space in Denver, Colorado to replace the lease for its prior office space, which expired on October 31, 2014. The new office lease was effective on November 1, 2014, has a 39 month term and includes an option to extend the lease for an additional five years. The Company's minimum lease payments for the last nine months of 2015 and calendar years 2016, 2017 and 2018 are \$71,100, \$96,973, \$99,342 and \$8,295, respectively

For the three months ended March 31, 2015 and 2014, the Company recognized rent expense for leased office space of \$21,330 and \$19,479, respectively, which is reflected in operating expense in the accompanying statement of operations.

On April 29, 2015, the Company entered into a three year agreement with a certain data provider, which was effective will was effective on May 1, 2015, and requires the Company to pay a monthly fee based on the greater of actual data usage priced at contractual rates or \$1,000 per month beginning on August 1, 2015.

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Capital Resources

The Company will seek to grow its customer base primarily through the Employee Benefits Channel. The Company continues to make progress in expanding its network of employee benefit brokers who market our services to their employer clients for inclusion in the client's employee benefit plans as a voluntary employee benefit.

As of March 31, 2015 our cash balances totaled \$933,054, and we had no additional borrowing capacity under our Credit Facility (see note 5 to the consolidated interim condensed financial statements). We are dependent upon our existing cash balances, along with our cash flow generated from operations, and additional debt or equity financing, if available, to fund our debt service, expansion plans and other working capital needs.

Based on our current forecast of revenue growth, the Company anticipates that it will generate positive earnings, before net interest expense, income taxes, depreciation and amortization, share-based compensation and gain (loss) on warrant liability ("adjusted EBITDA"), for the year ending December 31, 2015. The Company generated adjusted EBITDA of \$162,288 for the three months ended March 31, 2015. Given the Company's existing cash balances and projected increase in adjusted EBITDA, the Company believes it will have sufficient liquidity to fund its operating activities and working capital needs for at least twelve months from March 31, 2015.

The Series C Preferred shares have a maturity date of February 24, 2016. Any Series C Preferred outstanding on February 24, 2016 shall be subject to Mandatory Redemption (as defined in Note 6) at a price equal to the then Liquidation Preference Amount (as defined in Note 6), which the Company shall pay either in cash from available legal surplus or, in the absence thereof, by delivery of a senior note with an interest rate of 15% per annum and a 90 day maturity date (the "90 Day Note"). On April 13, 2015, a meeting of the holders of the Series C Preferred shares was held and the holders approved a resolution to amend the maturity date of the 90 Day Note to November 22, 2017 (see notes 6 and 13 to the consolidated interim condensed financial statements).

In the event the Series C Preferred shares are not converted to Ordinary Shares on or before the Maturity Date and are redeemed by the delivery of the 90 Day Note, as extended, it may result in a level of debt and/or debt service that is in excess of a level that the Company believes is prudent and therefore, the Company may seek to adjust its capital structure in order to reduce the amount of debt and/or of debt service to a more prudent level. These debt and/or debt service levels would be determined based on the amount of projected operating cash flow that would allow the Company to meet its debt service, with a margin of safety, and to provide cash flow to pursue its growth strategy. Efforts to reduce the Company's level of debt may include the issuance of equity securities which could have a dilutive effect on existing Ordinary Shareholders.

Outstanding Share Data

We are authorized to issue up to 450,000,000 Ordinary Shares and up to 450,000,000 preferred shares. As of March 31, 2015, we have the following equity securities outstanding:

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Ordinary Shares

- 121,834,997 Ordinary Shares outstanding;
- 45,211,792 warrants, each of which is exercisable for one Ordinary Share at prices ranging from \$0.12 to \$0.29; and
- 13,258,000 stock options, each of which is exercisable for one Ordinary Share at prices ranging from \$0.10 to \$0.27 per share.

The warrants outstanding are denominated in U.S. dollars and contain cashless exercise provisions, which, upon certain conditions, permit the holder to exercise their warrants on a net cash exercise basis and receive Ordinary Shares without payment of any cash consideration. It is unlikely that we will receive any cash proceeds from the exercise of these warrants if they are exercised due to the aforementioned cashless exercise provisions.

Certain of the warrant agreements contain anti-dilution provisions that require a reduction in the exercise price of the warrant in the event the Company issues or sells its Ordinary Shares for an effective price that is less than the then existing exercise price of the warrant. The sale of the Series C Preferred shares and a units offering in 2011 triggered these anti-dilution provisions in certain of our warrant agreements.

Also, it is unlikely that we will receive any of the cash proceeds from the exercise of the stock options if they are exercised, since the stock options contain a cashless exercise provision, which, upon certain conditions, permit the holder to exercise their stock options on a net cash exercise basis and receive Ordinary Shares without payment of any cash consideration.

Series C Preferred Stock

On February 24, 2011 the Company issued 3,123,481 shares of its Series C Preferred shares. In June 2012, 50 shares of the Series C Preferred were converted to Ordinary Shares. As of March 31, 2015, the Company had outstanding 3,073,481 shares of its Series C Preferred shares. The holders of the Series C Preferred shares have the right to convert each share of their Series C Preferred into 10,000 Ordinary Shares of the Company, or 30,734,810 Ordinary Shares. The Company has reserved 30,734,810 of its Ordinary Shares to effect the conversion of Series C Preferred. The Series C Preferred shares are considered to be mandatory redeemable shares and is classified as a liability on the Company's consolidated statement of financial position as of March 31, 2015 and December 31, 2014.

The Series C Preferred shares have voting rights and powers equal to the voting rights of Ordinary Shares on an "as if" converted to Ordinary Shares basis.

In the event the Company issues or sells its Ordinary Shares for an effective price (the "New Issuance Price") that is less than the then existing conversion price of the Series C Preferred shares in effect immediately prior to such issue or sale, then immediately after such issuance the conversion price then in effect shall be reduced to the New Issuance Price, but not less than \$0.15 per Ordinary Share.

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Off-balance Sheet Arrangements

Other than the office lease commitment described in Note 7 of the Company's March 31, 2015 consolidated interim condensed financial statements and under the "Commitments" section above, the Company did not have any off-balance sheet arrangements as of March 31, 2015 or December 31, 2014.

Transactions with Related Parties

None.

Contingencies

In the normal course of business, the Company is party to business claims.

During the first quarter of 2015, our primary Sales Affiliate in the Tech Support Channel claimed they are due a portion of the subscription revenue for certain customer subscription renewals which occurred subsequent to our November 21, 2014 termination of the sales arrangement with the Sales Affiliate. The Company believes this claim is without merit, it intends to vigorously defend this claim.

As of the date of this report, the Company is not involved in any litigation, threatened litigation or other claims, other than the claim described above.

Significant Accounting Judgement and Estimates

The preparation of these consolidated interim condensed financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities as of the date of the consolidated interim condensed financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated interim condensed financial statements are:

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(1) Judgments

The key judgments made in applying accounting policies that have the most significant effect on the amount recognized in these consolidated interim condensed financial statements are as follows:

(i) Commitments and contingencies

From time to time, the Company is involved in claims in the normal course of business. Management assesses such claims and where considered probable to result in a material exposure and, where the amount of the claim can be measured reliably, provisions for loss are made based on management's assessment of the likely outcome.

Management has applied judgment in determining whether various contingencies and commitments require disclosure in the financial statements and also the amounts of the commitments and contingencies.

(2) Use of Estimates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to these consolidated interim condensed financial statements are as follows:

(i) Compound instruments

The Company estimated the fair value of the liability component of the Series C Preferred, including the related warrants, by discounting the redemption amount at a market rate for a similar liability that does not have an associated equity component. Warrants were issued with the Series C Preferred and their fair value was estimated using the Black Scholes options pricing model. Further, as the Series C Preferred is convertible, a portion of the proceeds were allocated to the conversion feature embedded in the Series C Preferred. Also, see Note 6 (a) of the consolidated interim condensed financial statements.

(ii) Warrants and options

The Company uses the Black-Scholes option pricing model to value its warrants and stock options. The Black-Scholes model requires the use of a number of assumptions, including expected share price volatility, risk-free interest rates, expected term and in the case of options, a forfeiture rate.

The estimated expected share price volatility is based on the Company's historical share price volatility. The risk-free interest rate is based on the U.S. Treasury bill rate for the expected term of the related warrants and stock options. The expected term of stock options represents the period of time that the stock options granted are expected to be outstanding. As the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero. In addition to the Black-Scholes model assumptions used in valuing stock options, the Company also estimates a forfeiture rate. The

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estimated forfeiture rate is based upon a combination of industry data and the Company's historical experience.

(iii) Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectable accounts. Management analyses changes in customer payment history as well as other factors when making a judgment to evaluate the adequacy of the allowance for doubtful accounts receivable. When the expectation is different from the original estimate, such difference will impact the carrying value of accounts receivable.

(iv) Property and equipment

Management estimates the useful lives of property and equipment based on the period during which the assets are expected to be available for use. The estimates are reviewed at least annually and are updated if expectations changes as a result of physical wear and tear, technical or commercial obsolescence, and legal or other limits to use. The amounts and timing of recorded expenses for depreciation or amortization of property and equipment for any period would be affected by changes in these factors and circumstances. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's property and equipment in the future.

(v) Customer agreements

Customer agreements are being amortized over five years, which is their estimated remaining life, including renewals, and was based on management's experience with other similar customer agreements. The estimates are reviewed at least annually and are updated if expectations changes as a result of changes in renewal percentages and other factors. The amounts and timing of recorded expenses for amortization of customer agreements for any period would be affected by changes in these factors and circumstances.

The valuations associated with measuring the recoverability of customer agreements for impairment analysis purposes involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, terminal growth rates and asset lives. These significant estimates could affect the Company's future results if the current estimates of future performance and fair values change.

New Accounting Policies

For annual periods beginning on or after January 1, 2014, the Company adopted each of these standards:

IAS 36 Impairment of Assets (amended)

IAS 36 which modifies certain disclosure requirements about the recoverable amount of

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impaired assets if that amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual period beginning on or after January 1, 2014. The Company adopted the amendments in its consolidated financial statements for the annual period beginning on January 1, 2014. The adoption of this standard will impact the Company's disclosures in the notes to the consolidated financial statements in periods where an impairment loss or impairment reversal is recorded.

Various Amendments

In December 2013, the IASB issued narrow-scope amendments to a total of nine standards as part of its annual improvement process. The improvement process is designed to make non-urgent but necessary amendments to IFRS. Some of the amendments made to the existing standards include: clarifying the definition of "vesting conditions" in IFRS 2 Share-based payment; defining the classification and measurement of contingent consideration; scope exclusion for the formation of joint arrangements in IFRS 3 Business Combinations, and modifying the definition of a "related party" in IAS 24 Related Party Disclosures. The Company adopted these amendments in its consolidated financial statements for the annual period beginning on January 1, 2014. The adoption of these standards did not have a material impact on the consolidated financial statements.

Future Accounting Pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company.

IFRS 9 Financial Instruments

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets and liabilities. IFRS 9 uses a single approach to determine whether a financial instrument is measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of those financial instruments. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The IASB has established a tentative adoption date of January 1, 2018 for this IFRS. The Company will be required to adopt IFRS 9 in the future and has not fully assessed the impact of adopting IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall under the scope of other IFRSs. It specifies how and when to recognize revenue as well as requiring entities to provide more information and relevant disclosure. IFRS 15 is to be applied on either a full or modified retrospective approach and is effective for annual period beginning on or after January 1, 2017, with earlier

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application permitted. The Company has not fully assessed the impact of adopting IFRS 15.

Financial Instruments and Other Instruments

On February 24, 2011, the Company issued 3,123,481 shares of its Series C Preferred and five-year warrants to purchase 15,617,405 of its Ordinary Shares at an exercise price of \$0.12 per share and received gross proceeds of \$3,123,481. In addition, the Company issued to the underwriters of this offering five-year warrants to purchase 4,348,481 of its Ordinary Shares at an exercise price of \$0.12 per share. The Series C Preferred is considered to be mandatory redeemable shares and is classified as a liability on the Company's statement of financial position.

In accordance with IAS 32, the Company estimated the fair value of the liability component of the Series C Preferred Stock to be \$2,978,009, including the related warrants, by discounting the redemption amount at a market rate for a similar liability that does not have an associated equity component. The warrants were issued with the Series C Preferred and their fair value, using the Black Scholes options pricing model, is estimated to be \$814,105, resulting in a fair value of \$2,165,904 for the liability portion of the Series C Preferred stock. Further, as the Series C Preferred is convertible, a portion of the proceeds were allocated to the conversion feature embedded in the Series C Preferred. The residual amount reflecting the conversion feature of \$145,472 was recorded as the equity component. The Series C Preferred and the related warrants are classified as a liability, and the discount will be amortized over the period from issuance to February 24, 2016 (the redemption date) as a charge to interest expense.

Forward-looking Information and Statements

Certain statements contained in this report constitute forward looking information within the meaning of securities laws. Implicit in this information, particularly in respect of the Company's future operating results, economic performance and the ultimate outcome of contingencies are assumptions regarding projected revenues and expenses. These assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that the Company's actual future operating results and economic performance are subject to a number of risks and uncertainties, including general economic, market and business conditions, and could differ materially from what is currently expected. Forward-looking information contained in this report is based on management's current estimates, expectations and projections, which management believes are reasonable as of the current date. The reader should not place undue reliance on forward-looking statements and should not rely upon this information as of any other date. In addition to presenting an analysis of results for the three month periods ended March 31, 2015 and 2014, this report also discusses certain important events that occurred between the end of the period and May 21, 2015.

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Forward-looking information included or incorporated by reference in this document includes statements with respect to the Company's:

- Efforts and plans to expand its Employee Benefit Channel and ultimately our customer base by significantly expanding the number of Benefit Broker relationships and the depth and breadth of our relationships within these Benefit Brokers Efforts -- See Marketing of Services;
- Belief that it will likely generate positive earnings, before net interest expense, income taxes, depreciation and amortization, share-based compensation and gain (loss) on warrant liability for the year ended December 31, 2015--See Capital Resources;
- Belief that it will have sufficient liquidity to fund its operating activities and working capital needs for at least twelve months from March 31, 2015—See Capital Resources.
- Estimation that revenue from its Tech Support Channel will decline significantly for the foreseeable future—See Results of Operations.
- Management's belief that the resolution certain claims made against it by its primary Sales Affiliate will not have a material adverse effect on the Company's financial condition—See Contingencies.

Business Risks

In the normal course of business, the Company's operations are influenced by a number of internal and external factors and are exposed to risks and uncertainties that can affect its business, financial condition and operating results. The activities of the Company are subject to ongoing operational risks including the performance of key data and service suppliers, product acceptance, competition, ability to retain customers and government and other industry regulations, all of which may affect the ability of the Company to meet its obligations.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected.

Risk management is supervised by the Chief Executive Officer and the Chief Financial Officer under guidance from the Board of Directors. The Chief Executive Officer and the Chief Financial Officer department identifies and evaluates financial risks in cooperation with other management personnel. The finance department is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated to acceptable levels.

Ability to Retain Distribution Partners, Employers and Customers

We have derived a significant portion of our revenue from customers who subscribe to our consumer services through one of our distribution partners, including Benefit Brokers, benefit platforms, employers and tech support partners. Many of our key distribution relationships are governed by agreements that may be terminated without cause and without penalty and upon a short notice period. In order for us to grow our revenue, we must

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maintain and expand our relationships with these partners. The loss of certain of these distribution partners may have a material adverse effect on our business, financial condition, and results of operation (see Notes 8 and 12 to the consolidated interim condensed financial statements).

Data Suppliers

Our services depend extensively upon continued access to and receipt of data from external sources. Our data providers could stop providing data, provide untimely data, or increase the costs for their data for a variety of reasons, including for competitive reasons. This would adversely affect our business, operating results, and financial condition.

Further, we may not be successful in maintaining our relationships with these data providers and may not be able to continue to obtain data from them on acceptable terms or at all. Furthermore, we cannot provide assurance that we will be able to obtain data from alternative or additional sources if our current sources become unavailable.

Ability to Manage Future Growth

Future growth, if any, may cause a significant strain on the Company's management and its operational, financial, human and other resources. The Company's ability to manage growth effectively will require it to implement and improve operational, financial, and management information systems and to hire, train, manage employees. These demands may require the addition of management and other personnel and the development of additional expertise. There can be no assurance that the Company will be able to manage such growth effectively, that its management, personnel or systems will be adequate to support the Company's operations or that the Company will be able to achieve the increased levels of revenue commensurate with the increased levels of operating expenses associated with this growth, if any.

Competition

We operate in a highly competitive business environment and most of our competitors have substantially greater financial, technical, marketing, distribution and other resources than we possess, which affords them competitive advantages. In addition, some of our competitors may have access to data that we do not have or cannot obtain without difficulty, or at all. Any of these factors could reduce our growth, revenue, access to valuable data, or market share.

Security of Confidential Information

Our services require us to collect, store, use, and transmit significant amounts of confidential information including personally identifiable information, credit card information, and other critical data. We employ a range of information technology solutions, controls, procedures, and processes designed to protect the confidentiality, integrity, and availability of our critical assets, including our data and information technology systems. While we engage in a number of measures aimed to protect against security breaches and to minimize problems if a data breach were to occur, our information technology systems and infrastructure may be vulnerable to damage, compromise, disruption, and shutdown due to

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attacks or breaches by hackers or due to other circumstances, such as employee error or malfeasance or technology malfunction. The occurrence of any of these events, as well as a failure to promptly remedy these events should they occur, could compromise our systems, and the information stored in our systems could be accessed, publicly disclosed, lost, stolen, or damaged. Any such circumstance could adversely affect our ability to attract and maintain customers as well as strategic partners, cause us to suffer negative publicity, and subject us to legal claims and liabilities or regulatory penalties.

Government Regulation

Our business and the information we use in our business is subject to a wide variety of federal, state, and local laws and regulations, including the FCRA, the Gramm-Leach-Bliley Act, the FTC Act and comparable state laws that are patterned after the FTC Act, and similar laws. We incur significant costs to operate our business and monitor our compliance with these laws and regulations. Any changes to the existing applicable laws or regulations, or any determination that other laws or regulations are applicable to us, could increase our costs or impede our ability to provide our services to our customers, which could have a material adverse effect on our business, operating results, financial condition, and prospects. In addition, any of these laws or regulations is subject to revision, and we cannot predict the impact of such changes on our business. Further, any determination that we have violated any of these laws and regulations may result in liability for fines, damages, or other penalties, which could have a material adverse effect on our business, operating results, financial condition, and prospects.

We also are subject to federal and state laws regarding privacy and the protection of data. Any failure by us to adequately protect our customers' privacy and data could result in a loss of customer confidence in our services and ultimately in a loss of customers, which could adversely affect our business.

Credit, Liquidity and Market Risks

The Company is exposed to credit, liquidity and market risks in the normal course of the Company's operations. These risks are mitigated by the Company's financial management policies and practices described below.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from customers.

(i) Trade and other receivables

The Company is exposed to credit risk from its customers. The Company does not perform credit checks on its customers in advance of providing service to the customers and, therefore, does not have specific knowledge regarding the credit quality of its customers. However, the Company has a significant number of

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customers, which minimizes concentration of credit risk, reviews its account receivable aging frequently and follows up on any accounts that are past due.

As of March 31, 2015, accounts receivable that are considered past due (over 30 days past due from the date of the invoice) totalled \$39,047, none of which the Company considered to be impaired. The gross accounts receivable at March 31, 2015 and December 31, 2014, was \$288,359 and \$170,165, respectively. For the three months ended March 31, 2015 and 2014, the Company recorded bad debt expense of \$1,016 and \$191, respectively.

(ii) Cash and cash equivalents

The Company limits its exposure to credit risk by making deposits with and investing only in liquid securities with established financial institutions. Management does not expect any counterparty to fail to meet its obligations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account projected sales, receipts, expenditures and by managing the maturity profile of its financial liabilities. The Company currently finances its operations through internally generated cash flows and available cash balances. The table below is a summary of the Company's debt maturities as of March 31, 2015:

	Debt Maturity		
	April 1, 2015 to December 31, 2015	2016	Total
Credit Facility.....	\$ 156,831	\$ 113,329	\$ 270,160
Finance lease.....	12,132	14,876	27,008
Series C Preferred (1).....	—	5,164,257	5,164,257
Total.....	<u>\$ 168,963</u>	<u>\$ 5,292,462</u>	<u>\$ 5,461,425</u>

(1) See notes 6 and 13 to the consolidated interim condensed financial statements regarding the conversion and redemption features.

The Series C Preferred has a maturity date of February 24, 2016. Any Series C Preferred outstanding on February 24, 2016 shall be subject to Mandatory Redemption at a price equal to the then Liquidation Preference Amount, which the Company shall pay either in cash from available legal surplus or, in the absence thereof, by delivery of a senior note with an interest rate of 15% per annum and a 90 day maturity date (the "90 Day Note"). On April 13, 2015, a meeting of the holders of the Series C Preferred was held and the holders approved a resolution to amend the maturity date of the 90 Day Note to November 22, 2017 (see Notes 6 and 13 of the consolidated interim condensed financial statements).

In the event the Series C Preferred shares are not converted to Ordinary Shares on or

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before the Maturity Date and are redeemed by the delivery of the 90 Day Note, as extended, it may result in a level of debt and/or debt service that is in excess of a level that the Company believes is prudent and therefore, the Company may seek to adjust its capital structure in order to reduce the amount of debt and/or of debt service to a more prudent level. These debt and/or debt service levels would be determined based on the amount of projected operating cash flow that would allow the Company to meet its debt service, with a margin of safety, and to provide cash flow to pursue its growth strategy. Efforts to reduce the Company's level of debt may include the issuance of equity securities which could have a dilutive effect on existing Ordinary Shareholders.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, affect the Company's income (loss) or the value of its assets.

(i) Interest rate risk

The Company is currently not exposed to interest rate risk as all of its debt has fixed interest rates.

(ii) Foreign currency risk

The Company is currently not exposed to foreign currency risk as substantially all of its transactions are denominated in U.S. dollars.