

ID WATCHDOG, INC.

**UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL
STATEMENTS**

AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014

**AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30,
2015 AND 2014**

The accompanying unaudited consolidated interim condensed financial statements of ID Watchdog, Inc. (the "Company") have been prepared in accordance with International Financial Reporting Standards and are the responsibility of the Company's management.

The Company's independent auditors, GHP Horwath, P.C., have not performed a review of these consolidated interim condensed financial statements in accordance with standards established by the Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

ID WATCHDOG, INC.

UNAUDITED CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

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ID WATCHDOG, INC
CONSOLIDATED INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
(Expressed in U.S Dollars)

	September 30, 2015	December 31, 2014
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 946,364	\$ 886,476
Accounts receivable, net of allowance of \$3,096 and \$1,563....	382,091	168,602
Prepaid expenses and other.....	177,227	123,617
Total current assets.....	1,505,682	1,178,695
Property and equipment, net (Note 4).....	83,168	79,879
Customer agreements, net.....	17,456	22,482
Total assets.....	\$ 1,606,306	\$ 1,281,056
LIABILITIES		
Current liabilities:		
Accounts payable.....	\$ 219,385	\$ 210,436
Accrued liabilities.....	804,219	751,290
Deferred revenue.....	555,272	439,794
Provision (Note 9).....	160,000	—
Current portion of Credit Facility (Note 5).....	—	84,422
Current portion of finance lease obligation (Note 5).....	17,489	15,931
Total current liabilities.....	1,756,365	1,501,873
Credit Facility (Note 5).....	—	99,500
Deferred rent.....	29,230	28,440
Finance lease obligation, net of current portion (Note 5).....	1,558	14,876
Series C mandatorily redeemable preferred shares, net of discount and conversion feature (Note 6).....	4,840,889	4,334,395
Warrant liability (Note 12).....	133,361	399,318
Total liabilities.....	6,761,403	6,378,402
Commitments (Notes 5, 6, and 8)		
SHAREHOLDERS' DEFICIT		
Share capital (Note 6, 7, 10, 11 and 12):		
Preferred shares; 450,000,000 shares authorized		
Ordinary Shares; 450,000,000 shares authorized:		
Ordinary Shares: 121,834,997 shares issued and outstanding.....	24,622,696	24,622,696
Contributed surplus.....	2,512,412	2,473,999
Warrants.....	1,649,064	1,576,765
Accumulated deficit.....	(33,939,269)	(33,770,806)
Total shareholders' deficit.....	(5,155,097)	(5,097,346)
Total liabilities and shareholders' deficit.....	\$ 1,606,306	\$ 1,281,056

Subsequent Event (Note 14)

The accompanying notes are an integral part of these unaudited consolidated interim condensed financial statements.

ID WATCHDOG, INC.
CONSOLIDATED INTERIM CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(Expressed in U.S. Dollars)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenue.....	\$ 1,377,583	\$ 887,685	\$ 3,943,534	\$ 2,520,632
Cost of revenue.....	<u>377,296</u>	<u>231,938</u>	<u>1,054,230</u>	<u>734,330</u>
Gross profit.....	1,000,287	655,747	2,889,304	1,786,302
Operating expense:				
General and administrative expense.....	333,187	356,122	1,042,086	997,215
Sales and marketing expense.....	455,950	196,306	1,314,639	511,938
Share-based compensation expense (Note 11).....	13,054	24,029	38,413	118,967
Depreciation and amortization expense.....	<u>12,049</u>	<u>14,597</u>	<u>33,217</u>	<u>47,963</u>
	<u>814,240</u>	<u>591,054</u>	<u>2,428,355</u>	<u>1,676,083</u>
Operating income.....	186,047	64,693	460,949	110,219
Other income (expense):				
Gain (loss) on warrant liability (Note 12).....	66,298	(79,863)	265,957	(39,932)
Interest expense, net (Note 5).....	(202,495)	(210,021)	(735,369)	(639,755)
Litigation provision (Note 9).....	<u>(160,000)</u>	<u>—</u>	<u>(160,000)</u>	<u>—</u>
	<u>(296,197)</u>	<u>(289,884)</u>	<u>(629,412)</u>	<u>(679,687)</u>
Net loss and comprehensive loss applicable to ordinary shares.....	<u>\$ (110,150)</u>	<u>\$ (225,191)</u>	<u>\$ (168,463)</u>	<u>\$ (569,468)</u>
Basic and diluted net loss per share applicable to ordinary shares.....	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of shares outstanding - basic and diluted.....	<u>121,834,997</u>	<u>121,834,997</u>	<u>121,834,997</u>	<u>121,834,997</u>

The accompanying notes are an integral part of these unaudited consolidated interim condensed financial statements.

ID WATCHDOG, INC.
CONSOLIDATED INTERIM CONDENSED STATEMENTS OF SHAREHOLDERS' DEFICIT
(Unaudited)
(Expressed in U.S. Dollars)

Nine Months Ended September 30, 2014

	<u>Ordinary Shares</u>	<u>Ordinary Shares Amount</u>	<u>Contributed Surplus</u>	<u>Warrants</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Deficit</u>
Balance, January 1, 2014.....	121,834,997	\$24,622,696	\$2,336,878	\$1,576,765	(\$33,591,744)	(\$5,055,405)
Net loss.....	—	—	—	—	(569,468)	(569,468)
Share-based compensation expense and stock options issued for services.....	—	—	118,967	—	—	118,967
Balance, September 30, 2014....	<u>121,834,997</u>	<u>\$24,622,696</u>	<u>\$2,455,845</u>	<u>\$1,576,765</u>	<u>(\$34,161,212)</u>	<u>(\$5,505,906)</u>

Nine Months Ended September 30, 2015

	<u>Ordinary Shares</u>	<u>Ordinary Shares Amount</u>	<u>Contributed Surplus</u>	<u>Warrants</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Deficit</u>
Balance, January 1, 2015.....	121,834,997	\$24,622,696	\$2,473,999	\$1,576,765	(\$33,770,806)	(\$5,097,346)
Net loss.....	—	—	—	—	(168,463)	(168,463)
Share-based compensation expense and stock options issued for services.....	—	—	38,413	—	—	38,413
Warrants issued for amendment to Series C Preferred shares.....	—	—	—	72,299	—	72,299
Balance, September 30, 2015....	<u>121,834,997</u>	<u>\$24,622,696</u>	<u>\$2,512,412</u>	<u>\$1,649,064</u>	<u>(\$33,939,269)</u>	<u>(\$5,155,097)</u>

The accompanying notes are an integral part of these unaudited consolidated interim condensed financial statements.

ID WATCHDOG, INC.
CONSOLIDATED INTERIM CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in U.S. Dollars)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss.....	\$ (168,463)	\$ (569,468)
Adjustment to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense.....	33,217	47,964
Interest expense - accrued dividends on Series C Preferred shares, amortization of liquidation preferences, discount on warrants and debt offering.....	578,793	540,888
Amortization of Credit Facility fees.....	125,224	48,246
Share-based compensation expense to employees, directors and consultants.....	38,413	118,967
(Gain) loss on fair value adjustment to warrant liabilities..	(265,957)	39,932
Allowance for doubtful accounts.....	1,533	420
Change in assets and liabilities:		
Increase in accounts receivable.....	(215,022)	(118,926)
(Increase) decrease in prepaid expenses and other.....	(53,610)	23,674
Increase in accounts payable and accrued liabilities.....	211,878	231,934
Increase in deferred revenue.....	115,478	79,255
Increase in provision.....	160,000	—
Increase (decrease) in deferred rent.....	790	(6,031)
Net cash provided by operating activities.....	<u>562,274</u>	<u>436,855</u>
Cash flows from investing activities:		
Capital expenditures.....	(31,480)	(26,221)
Net cash used in investing activities.....	<u>(31,480)</u>	<u>(26,221)</u>
Cash flows from financing activities:		
Repayment of borrowing on Credit Facility.....	(319,146)	(133,425)
Credit Facility fees.....	(140,000)	—
Repayment of finance lease obligation.....	(11,760)	(10,385)
Net cash used in financing activities.....	<u>(470,906)</u>	<u>(143,810)</u>
Net increase in cash and cash equivalents.....	59,888	266,824
Cash and cash equivalents, beginning of the period.....	886,476	552,694
Cash and cash equivalents, end of the period.....	<u>\$ 946,364</u>	<u>\$ 819,518</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest.....	\$ 31,352	\$ 46,874
Cash paid for income taxes.....	—	—

The accompanying notes are an integral part of these unaudited consolidated interim condensed financial statements.

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(Unaudited)
(Expressed in U.S. Dollars)

1. General Business Description and Liquidity

Business Description

ID Watchdog, Inc. (“ID Watchdog” or the “Company”) provides a variety of identity theft detection and resolution services primarily to individual consumers on a subscription basis through its wholly-owned subsidiary, Identity Rehab Corporation (“ID Rehab”). The Company’s address is 621 17th Street, Suite 2501, Denver, CO 80293.

ID Watchdog is a limited liability exempted company incorporated on May 13, 2008, under the laws of the Cayman Islands.

The Company’s Ordinary Shares are listed on the TSX Venture Exchange (the “TSXV”) trading under the symbol “IDW”.

Principles of Consolidation

The accompanying unaudited consolidated interim condensed financial statements include the results of operations of the Company and those of its wholly-owned subsidiaries, ID Rehab and IDR Processing, LLC (“IDR”), formally WDI Processing, LLC.

Liquidity

The Company has incurred significant net losses from its inception and as of September 30, 2015, has an accumulated deficit of \$33,939,269. The Company has funded these losses primarily through funds raised in its Initial Public Offering (“IPO”) and from private placements of debt and equity securities.

The Company will seek to grow its customer base primarily through the employee benefit 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 primarily as a voluntary employee benefit.

As of September 30, 2015 and December 31, 2014, our cash and cash equivalents balances totaled \$946,364 and \$886,476, respectively. 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 financial forecast, the Company anticipates that it will generate positive operating income and positive cash flows from operating activities for the year ending December 31, 2015. The Company generated operating income of \$186,047 and \$460,949 for the three and nine months ended September 30, 2015, respectively, and cash flows from operating activities of \$562,274 for the nine months ended September 30, 2015. Given the Company’s existing cash balances and projected cash provided by operating activities, the Company believes it will have sufficient liquidity to fund its operating activities and working capital needs for at least twelve months from September 30, 2015.

The Company’s Series C Preferred shares have a maturity date of February 24, 2016. Any Series C Preferred shares 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 an Exchange Note (as defined in Note 7) with an interest rate of 15% per annum and due on November 22, 2017.

In the event the Series C Preferred shares are not converted to Ordinary Shares on or before the Maturity Date (as defined in Note 6) and are redeemed by the delivery of the Exchange Note, 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

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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 will likely 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. Any efforts to reduce the Company's level of debt through the issuance of equity securities will likely have a dilutive effect on its existing ordinary shareholders.

2. Significant Accounting Policies and Basis of Presentation

(a) Statement of Compliance

These unaudited consolidated interim condensed financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standard 34 – Interim Financial Reporting and do not contain all of the information required for full annual financial statements. Therefore, these unaudited consolidated interim condensed financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2014.

These consolidated interim condensed financial statements were authorized for issue by the Audit Committee of the Board of Directors on November 11, 2015.

(b) Basis of Measurement

These unaudited consolidated interim condensed financial statements have been prepared on a going concern basis using the historical cost convention, except as disclosed in the accounting policies below.

(c) Functional and Presentation Currency

These unaudited consolidated interim condensed financial statements are presented in U.S. dollars which is the Company's functional currency.

(d) 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

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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 periods beginning on or after January 1, 2018, with earlier application permitted. The Company has not fully assessed the impact of adopting IFRS 15.

(e) Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as a financial charge.

(f) Significant Accounting Judgments and Estimates

The preparation of these unaudited 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 unaudited 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 unaudited consolidated interim condensed financial statements are:

(1) Judgments

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

(i) Provisions 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 reasonably estimated, provisions for loss are made based on management's assessment of the likely outcome.

Significant judgments are required in determining whether various provisions and contingencies require disclosure in the unaudited consolidated interim condensed financial statements and also in estimating the amounts of the provisions and contingencies.

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(2) Use of Estimates

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to these unaudited 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 shares, 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 shares and their fair value was estimated using the Black-Scholes options pricing model. Further, as the Series C Preferred shares are convertible, a portion of the proceeds were allocated to the conversion feature embedded in the Series C Preferred shares. Also, see Note 6 (a).

(ii) Warrants and options

The Company uses the Black-Scholes option pricing model to value 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, dividend yield 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 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 change 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.

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(v) Customer Agreements

In 2013, the Company acquired certain customer agreements from a third-party identity theft protection company.

The 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.

(vi) Provisions

The assumptions associated with calculating the expected value of provisions involve significant estimates and assumptions, including those with respect to potential outcomes, probability of such outcomes and estimates of the related future resource outflows. These significant estimates could affect the Company's future results if the current estimates change.

3. Financial Instruments and Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board is responsible for discussing and monitoring the Company's risk management status at its regularly appointed Board meetings.

The Company's risk management discussions are structured to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management strategies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its oversight, management expectations and internal procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's financial management policies and procedures, and reviews the adequacy of these policies annually, taking into account management letters issued by the Company's auditors. The Company does not have an internal audit function at this time.

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.

(a) 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.

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(i) *Trade and other receivables*

The Company is exposed to credit risk from its customers. Because of the nature of the services provided by the Company and the rare occurrence of uncollectible accounts, the Company typically 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 provides its services to a significant number of customers, which minimizes concentration of credit risk. Additionally, the Company reviews its account receivable aging report on a monthly basis and follows up on any accounts that are past due.

As of September 30, 2015 and December 31, 2014, accounts receivable that are considered past due (over 30 days past due from the date of the invoice) totalled \$34,381 and \$28,317, respectively, none of which the Company considered to be uncollectible. The gross accounts receivable at September 30, 2015 and December 31, 2014, was \$385,187 and \$170,165, respectively. For the nine months ended September 30, 2015 and 2014, the Company recorded bad debt expense of \$1,533 and \$420, 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 as of September 30, 2015 and December 31, 2014.

(b) 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 the maturity of its various financial obligations. The Company currently finances its operations through internally generated cash flows and available cash balances.

The following table is a summary of the Company's debt maturities as of September 30, 2015:

	Debt Maturity			
	October 1, 2015 to December 31, 2015	2016	2017 (1)	Total
Finance lease.....	\$ 4,171	\$ 14,876	\$ —	\$ 19,047
Series C Preferred (1).....	—	—	5,164,257	5,164,257
Total.....	\$ 4,171	\$ 14,876	\$ 5,164,257	\$ 5,183,304

(1) See Note 6 regarding the maturity, conversion and redemption features of the Series C Preferred.

(c) Interest Rate Risk

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

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(d) Capital Management

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy and to undertake selective acquisitions, while at the same time taking a prudent approach towards financial leverage and management of financial risk.

The Company's primary sources of capital during the first nine months of 2015 were generated from operating activities, which totaled \$562,274. This capital was used primarily for debt service and for capital expenditures. The Company is not subject to any externally imposed capital requirements. There has been no change in the Company's capital management policy for the period ended September 30, 2015.

For the purpose of the Company's capital management, capital includes the following:

	September 30, 2015	December 31, 2014
Working Capital Deficiency	\$ (250,683)	\$ (323,178)
Credit Facility, current and long-term	\$ —	\$ 319,146
Finance leases, current and long-term.....	19,047	30,807
Series C Preferred.....	4,840,889	4,334,395
Shareholders' deficit	(5,155,097)	(5,097,346)
Totals.....	<u>\$ (545,844)</u>	<u>\$ (736,176)</u>

The Company's objective is to fund its organic growth from its working capital, which should continue to increase as the Company's revenues increase. The Company manages its capital by continuously monitoring actual and projected cash flows, taking into account projected sales, receipts, expenditures and the maturity of its various financial obligations.

The Company's Series C Preferred shares have a maturity date of February 24, 2016. Any Series C Preferred shares 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 an Exchange Note (as defined in Note 7) with an interest rate of 15% per annum and due on November 22, 2017.

In the event the Series C Preferred shares are not converted to Ordinary Shares on or before the Maturity Date (as defined in Note 6) and are redeemed by the delivery of the Exchange Note, 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 will likely 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.

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4. Property and Equipment

The Company's property and equipment comprise of computer hardware, computer software, office furniture and equipment and leasehold improvements.

Depreciation and amortization expense for the three months ended September 30, 2015 and 2014 were \$10,374 and \$12,922, respectively, and for the nine months ended September 30, 2015 and 2014 were \$28,191 and \$42,937, respectively, and are included in depreciation and amortization expense in the unaudited consolidated interim condensed statements of operations.

Cost

	Computer Hardware	Computer Software	Office Equipment	Furniture	Leasehold Improvements	Total
Balance at January 1, 2015	\$102,503	\$744,547	\$107,777	\$59,797	\$21,331	\$1,035,955
Additions	18,092	4,216	5,824	3,348	-	31,480
Deletions	-	-	-	-	-	-
Balance at September 30, 2015	<u>\$120,595</u>	<u>\$748,763</u>	<u>\$113,601</u>	<u>\$63,145</u>	<u>\$21,331</u>	<u>\$1,067,435</u>

Accumulated Depreciation and Amortization

Balance at January 1, 2015	\$(90,512)	\$(741,450)	\$(79,931)	\$(43,088)	\$ (1,095)	\$(956,076)
Depreciation and amortization for the period...	(5,849)	(1,987)	(12,022)	(3,404)	(4,929)	(28,191)
Deletions	-	-	-	-	-	-
Balance at September 30, 2015	<u>\$(96,361)</u>	<u>\$(743,437)</u>	<u>\$(91,953)</u>	<u>\$(46,492)</u>	<u>\$ (6,024)</u>	<u>\$(984,267)</u>

Net book value:

At December 31, 2014.....	\$ 11,991	\$ 3,097	\$ 27,846	\$ 16,709	\$ 20,236	\$ 79,879
At September 30, 2015.....	\$ 24,234	\$ 5,326	\$ 21,648	\$ 16,653	\$ 15,307	\$ 83,168

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Assets under financing leases and tenant improvements included in property and equipment are as follows:

	Cost		Total
	Office Equipment	Leasehold Improvements	
Balance at January 1, 2015	\$69,966	\$21,331	\$91,297
Additions	-	-	-
Deletions	-	-	-
Balance at September 30, 2015	<u>\$69,966</u>	<u>\$21,331</u>	<u>\$91,297</u>

Accumulated Depreciation and Amortization

Balance at January 1, 2015	\$(45,478)	\$(1,095)	\$(46,573)
Depreciation and amortization for the period.....	(10,495)	(4,929)	(15,424)
Deletions	-	-	-
Balance at September 30, 2015	<u>\$(55,973)</u>	<u>\$(6,024)</u>	<u>\$(61,997)</u>

Net book value:

At December 31, 2014.....	\$ 24,488	\$ 20,236	\$ 44,724
At September 30, 2015.....	\$ 13,993	\$ 15,307	\$ 29,300

5. Debt

Credit Facility

On February 8, 2013, ID Rehab entered into a \$500,000 secured credit facility (the "Credit Facility") with Costella Kirsch, a California based lender (the "Lender"). ID Rehab borrowed \$250,000 on the Credit Facility at closing and borrowed an additional \$250,000 (the "Second Draw") on July 31, 2013. At closing, the Company paid the Lender an origination fee by issuing to the lender 1,000,000 of its Ordinary Shares and issued an additional 1,000,000 of its Ordinary Shares to the Lender on July 31, 2013, when it borrowed the Second Draw. Payments on the Credit Facility were interest only through 2013, with the principal and interest due in equal installment over the remaining 30 month term beginning in January 2014. The borrowings from the Credit Facility were used for general corporate purposes, accrued interest at 13% per annum and were secured by all of the assets of ID Rehab.

On June 19, 2015, the Company repaid all the outstanding principal, a prepayment fee and interest due on its Credit Facility totaling \$250,054 and terminated the Credit Facility.

The Credit Facility included certain covenants that required the Company to pay additional fees to the Lender in the amounts of \$50,000 and \$100,000, for the years ended December 31, 2014 and 2015, respectively, in the event that ID Rehab did not achieve certain levels of operating income before depreciation, amortization, and share-based compensation ("Operating Cash Flow"). The Company did not achieve the required Operating Cash Flow level for 2014 and paid the Lender an additional fee of \$50,000 in the first quarter of 2015. The Company did not believe it would exceed the required Operating Cash Flow level for 2015 and agreed with the Lender to pay a fee in the amount of \$90,000, upon the termination of the Credit Facility, as full satisfaction for the \$100,000 fee for 2015.

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At September 30, 2015 and December 31, 2014, the Company's borrowings consisted of the following:

	<u>2015</u>	<u>2014</u>
Current borrowings:		
Current portion of finance lease obligations.....	\$ 17,489	\$ 15,931
Current portion of Credit Facility, net of facility fees.	—	84,422
Long-term borrowings:		
Finance lease obligations, net of current portion....	1,558	14,876
Credit Facility, net of facility fees.....	—	99,500
Total borrowings.....	<u>\$ 19,047</u>	<u>\$ 214,729</u>

In July 2011, the Company entered into a five year agreement to lease telecommunications equipment. The monthly lease payments are \$1,574 and the agreement includes a bargain purchase option at the end of the lease term.

The Company's minimum lease payments under its finance leases are as follows:

	<u>September 30, 2015</u>		<u>December 31, 2014</u>	
	<u>Present Value</u>	<u>Future Value</u>	<u>Present Value</u>	<u>Future Value</u>
Within one year.....	\$ 17,489	\$ 18,891	\$ 15,931	\$ 18,891
After one year.....	1,558	1,574	14,876	15,726
Total.....	<u>\$ 19,047</u>	<u>\$ 20,465</u>	<u>\$ 30,807</u>	<u>\$ 34,617</u>

Interest and accretion expense for the three and nine month periods ended September 30, 2015 and 2014 consisted of the following:

	<u>Three Months Ended September 30,</u>	
	<u>2015</u>	<u>2014</u>
Accrued dividends on Series C Preferred.....	\$ 61,470	\$ 61,470
Accretion 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
Amortization of discount related to Series C Preferred amendment warrants.....	21,526	—
Interest expense on Credit Facility and finance lease, net.....	673	15,336
Amortization of deferred financing fees.....	—	14,389
Total.....	<u>\$ 202,495</u>	<u>\$ 210,021</u>

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	Nine Months Ended September 30,	
	2015	2014
Accrued dividends on Series C Preferred.....	\$ 184,410	\$ 184,410
Accretion of Series C Preferred liquidation preference.	129,036	129,036
Amortization of fair value of Series C Preferred detachable warrants.....	141,261	141,261
Amortization of offering costs.	86,181	86,181
Amortization of discount related to Series C Preferred amendment warrant.....	37,905	—
Interest expense on Credit Facility and finance lease, net.....	31,352	50,621
Amortization of deferred financing fees.....	125,224	48,246
Total.....	\$ 735,369	\$ 639,755

The amortization of deferred financing fees in the above table for the three and nine month periods ended September 30, 2015, includes the write-off of \$63,666 of unamortized deferred financing fees as of the date the Credit Facility was repaid and terminated (see Note 5).

6. Series C Mandatorily Redeemable Convertible Preferred Stock and Warrants

(a) Series C Preferred

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 Ordinary Shares of the Company at an exercise price of \$0.12 per share, and received \$3,123,481 in gross proceeds. The holders of the Series C Preferred have the right to convert each share of their Series C Preferred into 10,000 Ordinary Shares of the Company, or 31,234,810 Ordinary Shares in total.

Effective on June 1, 2012, holders of 50 Series C Preferred shares elected to convert their Series C Preferred shares into 500,000 Ordinary Shares. As a result, as of September 30, 2015, the Series C Preferred shares outstanding and the Series C Preferred liability were 3,073,481 and \$4,840,889, respectively.

The Series C Preferred shares are considered to be mandatory redeemable and is classified as a liability on the Company's consolidated statement of financial position as of September 30, 2015 and December 31, 2014. The Series C Preferred share matures on February 24, 2016. Also below, see (d) Mandatory Conversion and (e) Maturity and Mandatory Redemption.

In accordance with IAS 32 – Financial Instruments: Presentation, the Company estimated the fair value of the liability component of the Series C Preferred 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. Warrants were issued with the Series C Preferred shares and their fair value, using the Black-Scholes options pricing model, was estimated to be \$814,105, resulting in a fair value of \$2,165,904 for the liability portion of the Series C Preferred shares. 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 assumptions used in the Black-Scholes model are as follows: (1) dividend yield of 0%; (2) expected volatility of 115%, (3) weighted average risk-free interest rate of 2.19%, (4) expected life of 5.0 years, and (5) fair value of the Company's Ordinary Shares of \$0.13 per share. The amounts attributable to the

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warrants and the equity conversion feature aggregating \$957,577 have been recorded as a discount and deducted from the face value of the preferred stock in the accompanying condensed consolidated statement of financial position. The Series C Preferred and the related warrants are classified as liabilities, and the discount for the warrants and equity conversion feature, will be amortized over the period from issuance to February 2016 (the redemption date) as a charge to interest expense.

Assuming that none of the Series C Preferred shares that were outstanding as of September 30, 2015 are converted to Ordinary Shares and all are held until the Mandatory Redemption Date, the Company projects that the redemption value Series C Preferred shares, net of discount and conversion features will accrete as follows:

	For the nine months ended September 30, 2015	For the year ending December 31, 2015	For the period January 1, 2016 through February 24, 2016
Balance, January 1.....	\$ 4,334,395	\$ 4,334,395	\$ 5,042,709
Warrants issued for amendment to Series C Preferred shares.....	(72,299)	(72,299)	—
Accrued dividends.....	184,410	245,878	37,051
Accretion of liquidation preference.....	129,036	172,048	25,928
Amortization of fair value of detachable warrants. .	141,261	188,347	28,383
Amortization of offering costs.....	86,181	114,910	17,317
Amortization of discount related to Series C Preferred amendment warrants.....	37,905	59,430	12,869
Balance, end of the period.....	<u>\$ 4,840,889</u>	<u>\$ 5,042,709</u>	<u>\$ 5,164,257</u>

(b) Dividends

Dividends on Series C Preferred shares accrue at 8% per annum on the sum of the issue price of \$1,000 per share. Such dividends shall accrue whether or not declared by the Company's Board of Directors, and whether or not there are profits, surplus or other funds of the Company legally available for the payment of dividends, but no dividend shall be paid unless there are profits, surplus or other funds of the Company legally available for the payment of dividends and then only if either declared by the Company's Board of Directors. Series C Preferred dividends have priority over dividends of the Company's Ordinary Shares. Series C Preferred shares are participating in any Ordinary Share dividends payable in shares and will be paid on the same terms and in the same fashion as if all of the Series C Preferred shares were converted into Ordinary Shares of the Company.

(c) Voting Rights

The Series C Preferred shares have voting rights and powers equal to the voting rights of Ordinary Shares on an "as if" converted basis. As long as one-third of the Series C Preferred is outstanding, the Company must obtain a waiver from the holders of the majority of the outstanding Series C Preferred shares before: a) declaring or paying cash dividends on Ordinary Shares b) authorizing or issuing additional shares of Series C Preferred shares, c) amending the rights, preferences or privileges of the Series C Preferred, d) authorizing any equity security senior to or on parity with the Series C Preferred shares, e) merging or consolidating with any other company, or selling all or substantially all of the Company's assets, or f) effecting any transaction in which the holders of the Company's voting interest prior to such transaction hold less than 50% of the voting interest in the Company following such transaction.

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(d) Mandatory Conversion

Holders of the Series C Preferred shares may convert all or a portion of their holdings at any time into Ordinary Shares at a conversion price of \$0.10 per Ordinary Share, which may be adjusted from time to time for splits, reclassifications, dividends payable in shares and certain other events as set out in the Articles of Association of the Company in the form adopted on June 25, 2008 (the "Amended Articles"). Conversion rates are subject to certain anti-dilution adjustments as provided in the Amended Articles. The holders of the Series C Preferred shares are obligated to convert ("Mandatory Conversion") their shares into Ordinary Shares at the applicable conversion price on the date in which one of the following occur ("Mandatory Conversion Date"):

- (1) The listing of the Ordinary Shares of the Company on a major U. S. Trading exchange (including the OTC Bulletin Board) and
 - The Ordinary Shares have a closing price of at least 200% of the conversion price for 20 consecutive trading days prior to the Mandatory Conversion Date;
 - The Ordinary Shares have an average trading volume of at least 500,000 shares for the 20 consecutive trading days prior to the Mandatory Conversion Date; and
 - The Ordinary Shares underlying conversion of the Series C Preferred have been registered under the Securities Act of 1933 for resale pursuant to an effective resale registration statement; or
- (2) The Company shall undertake an underwritten U.S. offering for an amount of at least \$15 million inclusive of any secondary offering of shares that might be included in such qualifying public offering.

(e) Maturity and Mandatory Redemption

The Series C Preferred shares have a maturity date of February 24, 2016. Any Series C Preferred shares outstanding on February 24, 2016 shall be subject to Mandatory Redemption at a price equal to the then Liquidation Preference Amount (as defined below), 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 Note 7).

(f) Liquidation Preferences

If prior to Mandatory Conversion, there is a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, resulting in a distribution by the Company of its assets to the holders of any class or series of the Company's Ordinary Shares or preferred shares (a "Liquidation Event"), then subject to applicable Cayman Islands law, before holders of the Ordinary Shares shall receive any consideration from such Liquidation Event, the holder of any then outstanding Series C Preferred shall be entitled to receive the greater of (i) 120% times the sum of original issue price of \$1,000 per share plus any accrued and unpaid dividends (the "Liquidation Preference Amount") or (ii) that amount which is equal to what such holders would otherwise receive were they to convert their Series C Preferred shares at the then applicable conversion price.

(g) Registration Rights

The Company stated in the offering memorandum used in connection with the Recapitalization its intention to file with the Securities and Exchange Commission of the United States (the "SEC"), on or before 120 days from February 24, 2011, a registration statement under the Securities Act of 1933, as amended covering the resale of 8,143,450 Ordinary Shares issued to certain vendors as well as all Ordinary Shares of the Company reserved for issuance upon conversion of the Series C Preferred shares

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or exercise of the various warrants issued (collectively the “Registerable Shares”). The Company has investigated the registration of the Registerable shares and has determined not to pursue such registration.

(h) Other Covenants

The term of the Series C Preferred shares also limit the Company’s ability to incur additional borrowings and to issue new preferred shares and make cash distributions. The Company may not:

- Incur additional debt that will cause the Company to have interest coverage of less than 2 times trailing earnings before interest, taxes, depreciation and amortization expense and then only if such indebtedness is junior in ranking to the Series C Preferred shares;
- Issue any new preferred stock that, in liquidation, ranks senior or pari passu with the Series C Preferred shares; and
- Make any distributions in cash or in kind to the holders of its Ordinary Shares.

7. Amendment to Series C Preferred and issuance of Warrants

On April 13, 2015 the Company held a meeting of the holders its Series C Preferred shares for the sole purpose of considering and passing a resolution to amend the section of the rights and restrictions of the Series C Convertible Preferred shares of the Company, which section read as follows:

On the Maturity Date, any then unconverted Series C Preferred shall be subject to Mandatory Redemption at a price equal to the then Liquidation Preference Amount, which the Company shall pay either (i) in cash from available legal surplus or (ii) in the absence thereof, by delivery of a senior note (the "Exchange Note"), which note shall have the following provisions:

Designation:	Senior in right of payment to any and all other notes
Interest Rate:	15%
Maturity:	90 days from the Maturity Date

The proposed resolution amends the maturity of the Exchange Note from “90 days from the Maturity Date” to read “November 22, 2017”. The resolution was approved at the meeting as holders of the Series C Preferred representing 2,495.085 shares, or 81.2% of the outstanding shares, submitted valid proxies and 100% voted in favor of the proposed resolution.

As consideration for the Series C Preferred shareholders who provided a valid proxy and voting in favor of the resolution and on April 21, 2015, the Company issued to these holders warrants to purchase 2,493,085 Ordinary Shares of the Company, at an exercise price of \$0.10 per Ordinary Share and a having a three year term. In addition, a holder who voted in favor of the resolution, but did not qualify to receive a warrant, received cash consideration totaling \$80.00.

8. 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.

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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 three months of 2015 and calendar years 2016, 2017 and 2018 are \$23,700, \$96,973, \$99,342 and \$8,295, respectively.

For the three and nine month periods ended September 30, 2015 and 2014, the Company recognized rent expense for leased office space of \$17,059, \$59,719, \$19,685, and \$59,756, 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 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.

9. Provision

Effective November 21, 2014, the Company terminated a sales affiliate relationship in its Tech Support Channel (the "Sales Affiliate"). In early 2015, the Company received an informal claim for unpaid compensation due the Sales Affiliate for customer renewals occurring subsequent to the date of termination.

On October 12, 2015, the Company was served with a civil action summons by the Sales Affiliate claiming approximately \$600,000 plus future claims for unpaid fees and customer renewals. All Sales Affiliate claims are based on renewals subsequent to termination.

The Company and its legal advisors believe these claims are without merit and intends to vigorously defend itself against these claims.

The Company has recorded a \$160,000 provision as of September 30, 2015, as its best estimate of the cost to defend and resolve these claims. The Company believes any outflow of funds required to resolve this matter will likely occur within 12 months from September 30, 2015.

10. Stock Options

On September 18, 2008, the Company adopted the ID Watchdog Stock Option Plan (the "Plan") authorizing a pool of up to 7.2 million stock options available for grant to employees and consultants of the Company. On January 8, 2010, shareholders of the Company voted to amend the Plan to authorize up to 12 million stock options available for grant, authorize a cashless exercise provision and other provisions to the Plan.

On February 23, 2012, the Company held a shareholders' meeting whereupon the shareholders approved the following amendments to the Company's Plan:

- (1) An increase in the number of Ordinary Shares which may be reserved for issuance pursuant to the exercise of options from 12,000,000 to 20,000,000, and

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- (2) An increase in the number of Ordinary Shares that may be reserved for issuance pursuant to options granted to Insiders (as defined in TSVX Policy 1.0) from 10% to 15% of issued Ordinary Shares. Under TSXV policy, the latter proposal required “disinterested shareholder approval,” whereby shares held by the Company’s existing Insiders and their Associates (as defined in TSXV Policy 1.1) are excluded from voting.

The exercise prices of the options granted are determined by the Nominating Corporate Governance and Compensation Committee, which members are appointed by the Board of Directors, and are generally established at or above the closing price of the Company’s Ordinary Shares on the TSXV on the date of grant. Options granted may have a term of up to ten years but will generally expire in five to seven years from the grant date and vest in accordance with the terms of the specific option agreement. The Plan replaced the Identity Rehab Corporation Stock Option Plan and all outstanding stock options to purchase ID Rehab’s common stock were exchanged for stock options with the same terms to purchase the Company’s Ordinary Shares effective September 18, 2008. All share-based employee compensation will be settled in newly issued shares.

Employee options generally vest over 18 to 36 months as long as the optionee remains in the Company’s employ. Options granted to members of the Board of Directors generally vest immediately and options granted to consultants generally vest over a period of one to 60 months. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Share-based compensation costs are expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

The Company uses the Black-Scholes option pricing model to value stock options. The Black-Scholes model requires the use of a number of assumptions, including expected share price volatility, risk-free interest rates, dividend yield and the expected term of the options. The expected term of stock options represents the period of time that the stock options granted are expected to be outstanding. 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 stock options. As the Company does not pay dividends, the dividend yield variable in the Black-Scholes model is zero.

The following table summarizes the assumptions used to value stock options granted during the nine months ended September 30, 2015 and 2014:

	Nine Months Ended September 30,	
	2015	2014
Weighted average exercise price.....	\$ 0.06	—
Expected term.....	3.0 years	—
Estimated volatility.....	147%	—
Risk-free interest rate.....	1.63%	—
Dividend yield.....	0%	—
Estimated forfeiture rate.....	15.0%	—
Total fair value.....	\$ 17,760	—
Weighted average grant date fair value per option.....	\$ 0.037	—

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A summary of options activity under the Plan for the nine months ended September 30, 2015 and 2014 is as follows:

Stock Options Denominated in U.S. Dollars

	Nine Months Ended September 30,			
	2015		2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period....	13,283,000	\$ 0.15	13,820,000	\$ 0.16
Granted.....	480,000	0.06	—	—
Expired/ Forfeited.....	(525,000)	0.14	(227,000)	0.19
Exercised.....	—	—	—	—
Outstanding, end of period.....	<u>13,238,000</u>	<u>\$ 0.15</u>	<u>13,593,000</u>	<u>\$ 0.16</u>
Exercisable, end of period.....	<u>11,366,724</u>	<u>\$ 0.16</u>	<u>10,199,722</u>	<u>\$ 0.18</u>

2015 Activity

On June 29, 2015, the Company granted to employees of the Company stock options to acquire an aggregate of 480,000 Ordinary Shares. Such options are exercisable at a price of U.S. \$0.06 per Ordinary Share, expire seven years from the date of grant and are subject to the terms and conditions of the Plan. During the first nine months of 2015, 525,000 options expired at a weighted average exercise price of \$0.14.

On October 6, 2015, the Company granted additional stock options to employees to acquire an aggregate of 1,225,000 Ordinary Shares. The options are exercisable at \$0.06 USD per Ordinary Share, expire seven years from the date of grant and are subject to the terms and conditions of the Plan.

2014 Activity

No stock options were granted by the Company in 2014. During the first nine months of 2014, 227,000 options expired or were forfeited at a weighted average exercise price of \$0.19.

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Stock Options Denominated in Canadian Dollars

	Nine Months Ended September 30,			
	2015		2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period....	—	\$ —	300,000	\$ 0.60
Granted.....	—	—	—	—
Expired/Forfeited.....	—	—	(300,000)	0.60
Outstanding, end of period.....	—	\$ —	—	\$ —
Exercisable, end of period.....	—	\$ —	—	\$ —

A summary of stock options outstanding and stock options exercisable at September 30, 2015 follows:

Stock Options Denominated in U.S. Dollars

Exercise Prices	Stock Options Outstanding		Stock Options Exercisable
	Number of Shares	Weighted Average Remaining Contractual Term (In years)	Number of Shares
\$0.06-\$0.10.....	6,493,000	5.10	4,621,724
\$0.11-\$0.15.....	3,325,000	3.97	3,325,000
\$0.16-\$0.20.....	—	—	—
\$0.21-\$0.27.....	3,420,000	0.70	3,420,000
	<u>13,238,000</u>	<u>3.68</u>	<u>11,366,724</u>

A summary of stock options outstanding and exercisable at December 31, 2014 follows:

Stock Options Denominated in U.S. Dollars

Exercise Prices	Stock Options Outstanding		Stock Options Exercisable
	Number of Shares	Weighted Average Remaining Contractual Term (In years)	Number of Shares
\$0.10-\$0.15.....	9,838,000	5.33	6,875,224
\$0.16-\$0.25.....	—	—	—
\$0.26-\$0.40.....	3,420,000	1.45	3,420,000
\$0.41-\$0.56.....	25,000	0.07	25,000
	<u>13,283,000</u>	<u>4.32</u>	<u>10,320,224</u>

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11. Share-based Compensation Expense:

A summary of share-based compensation expense follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Share-based compensation expense – employees and directors.....	\$ 13,054	\$ 24,029	\$ 38,413	\$ 117,822
Share-based compensation expense – consultants.....	—	—	—	1,145
Total share-based compensation expense.....	<u>\$ 13,054</u>	<u>\$ 24,029</u>	<u>\$ 38,413</u>	<u>\$ 118,967</u>

12. Warrants

The following are the assumptions used to value the warrants granted during the nine months ended September 30, 2015 and 2014:

	Nine Months Ended September 30,	
	2015	2014
Stock Price, in U.S. dollars.....	\$ 0.04	—
Expected term.....	3.0	—
Estimated volatility.....	147%	—
Risk free interest rate.....	1.63%	—
Dividend yield.....	0%	—
Weighted average fair value of the warrants issued.....	\$ 0.029	—

The Company issued 2,493,085 warrants during the nine month periods ended September 30, 2015. The Company did not issue any warrants for the similar period in 2014.

The following table presents the composition of warrants outstanding as of September 30, 2015:

Exercise Prices	Shares	Weighted Average Remaining Contractual Term (years)
\$0.10-\$0.15.....	32,506,153	0.79
\$0.16-\$0.20.....	—	—
\$0.21-\$0.25.....	8,493,333	1.11
Outstanding as of September 30, 2015.....	<u>40,999,486</u>	<u>0.85</u>

The following table presents the composition of warrants outstanding as of December 31, 2014:

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Exercise Prices	Shares	Weighted Average Remaining Contractual Term (years)
\$0.10-\$0.15.....	30,013,068	1.39
\$0.16-\$0.20.....	—	—
\$0.21-\$0.25.....	12,629,974	1.35
\$0.26-\$0.29.....	5,651,199	0.34
Outstanding as of December 31, 2014.....	<u>48,294,241</u>	<u>1.26</u>

A summary of warrant activity for the nine months ended September 30, 2015 and 2014 follows:

	Nine Months Ended September 30,			
	2015		2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	48,294,241	\$ 0.18	53,210,841	\$ 0.18
Issued	2,493,085	0.10	—	—
Exercised	—	—	—	—
Expired	(9,787,840)	0.26	—	—
Outstanding, end of period	<u>40,999,486</u>	<u>\$ 0.15</u>	<u>53,210,841</u>	<u>\$ 0.18</u>

Certain of the Company's warrant agreements contain anti-dilution provisions that will cause the exercise price of the warrant to decrease in the event that Company issues equity securities at a price lower than the existing warrant exercise price. As of September 30, 2015 and December 31, 2014, 19,965,886 warrants with exercise prices of \$0.12 per Ordinary Share included such anti-dilution provisions. Because of the nature of these anti-dilution provisions, the Company is required to reflect these warrants on the unaudited consolidated interim condensed statements of financial position as liabilities at their fair value. At September 30, 2015 and December 31, 2014, the warrant liability totaled \$133,361 and \$399,318, respectively.

13. Significant Customers

For the nine month ended September 30, 2015 and 2014, the Company recorded revenues of \$350,310, or 7.7%, and \$336,737, or 13.4%, respectively, from its largest employer customer. As of September 30, 2015, the accounts receivable due from this customer was \$48,908. No other employer customers accounted for more than 10% of the Company's total revenues.

14. Subsequent Events

On October 6, 2015, the Company granted additional stock options to employees to acquire an aggregate of 1,225,000 Ordinary Shares. The options are exercisable at \$0.06 USD per Ordinary Share, expire seven years from the date of grant and are subject to the terms and conditions of the Plan.

On October 12, 2015, the Company was served with a civil action summons by the Sales Affiliate claiming approximately \$600,000 plus future claims for unpaid fees and customer renewals (see Note 9 Provision).