

ID WATCHDOG, INC.

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2014 AND 2013

The accompanying unaudited consolidated interim condensed financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these consolidated interim condensed financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for review of interim financial statements by an entity's auditor.

ID WATCHDOG, INC.

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

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

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 793,866	\$ 552,694
Accounts receivable, net of allowance of \$1,129 and \$938.....	221,037	173,042
Prepaid expenses and other.....	71,160	97,177
Total current assets.....	1,086,063	822,913
Property and equipment, net (Note 4).....	69,037	80,168
Customer agreements, net (Note 5).....	27,508	29,184
Total assets.....	\$ 1,182,608	\$ 932,265
LIABILITIES		
Current liabilities:		
Accounts payable.....	\$ 204,396	\$ 110,272
Accrued liabilities.....	403,118	362,017
Current portion of credit facility (Note 6).....	130,887	119,986
Current portion of finance lease obligation (Note 6).....	14,512	14,068
Deferred revenue.....	695,870	568,224
Total current liabilities.....	1,448,783	1,174,567
Credit facility (Note 6).....	262,237	283,923
Deferred rent.....	83,783	86,524
Finance lease obligation, net of current portion (Note 6).....	27,008	30,807
Series C mandatorily redeemable preferred shares, net of discount and conversion feature (Note 7).....	3,793,510	3,613,214
Warrant Liability (Note 11).....	598,977	798,635
Total liabilities.....	\$ 6,214,298	\$ 5,987,670
Commitments and Contingencies (Notes 6, 7, and 8)		
SHAREHOLDERS' DEFICIT		
Share capital (Note 7, 9, 10, and 11):		
Preferred shares; 450,000,000 shares authorized		
Ordinary shares; no par value; 450,000,000 shares authorized:		
Ordinary Shares: 121,834,997 shares issued and outstanding.....	24,622,696	24,622,696
Contributed Surplus.....	2,396,657	2,336,878
Warrants.....	1,576,765	1,576,765
Accumulated deficit.....	(33,627,808)	(33,591,744)
Total shareholders' deficit.....	(5,031,690)	(5,055,405)
Total liabilities and shareholders' deficit.....	\$ 1,182,608	\$ 932,265

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)

	Three Months Ended March 31,	
	2014	2013
Revenue.....	\$ 790,627	\$ 554,488
Cost of revenue.....	248,830	192,946
Gross profit.....	541,797	361,542
Operating expense:		
General and administrative expense.....	340,857	338,211
Sales and marketing expense.....	142,197	127,378
Stock – based compensation expense (Note 10).....	59,779	57,400
Depreciation and amortization expense.....	18,230	21,804
	561,063	544,793
Operating loss.....	(19,266)	(183,251)
Other income (expense):		
Gain (loss) on warrant liability (Note 11).....	199,658	(120,648)
Interest income.....	9	4
Interest expense (Note 6).....	(216,465)	(186,297)
	(16,798)	(306,941)
Net income (loss) and comprehensive income (loss) applicable to ordinary shares.....	\$ (36,064)	\$ (490,192)
Basic and diluted net income (loss) per share applicable to ordinary shares.....	\$ (0.00)	\$ (0.00)
Weighted average number of shares outstanding – basic and diluted.....	121,834,997	119,401,664

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

Three Months Ended March 31, 2013

	<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, 2013.....	118,834,997	\$24,542,696	\$1,960,342	\$1,576,765	(\$31,317,391)	(\$3,237,588)
Net loss.....	—	—	—	—	(490,192)	(490,192)
Share based compensation expense and stock options issued for services.....	—	—	57,400	—	—	57,400
Shares issued in payment of Credit Facility fee (Note 6).....	1,000,000	30,000	—	—	—	30,000
Balance, March 31, 2013.....	<u>119,834,997</u>	<u>\$24,572,696</u>	<u>\$2,017,742</u>	<u>\$1,576,765</u>	<u>(\$31,807,583)</u>	<u>(\$3,640,380)</u>

Three Months Ended March 31, 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.....	—	—	—	—	(36,064)	(36,064)
Share based compensation expense and stock options issued for services.....	—	—	59,779	—	—	59,779
Balance, March 31, 2014.....	<u>121,834,997</u>	<u>\$24,622,696</u>	<u>\$2,396,657</u>	<u>\$1,576,765</u>	<u>(\$33,627,808)</u>	<u>(\$5,031,690)</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)

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net loss.....	\$ (36,064)	\$ (490,192)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense.....	16,554	21,804
Interest expense - accrued dividends on Series C Preferred shares, amortization of liquidation preferences, discount on warrants and debt offering.....	198,053	179,049
Amortization of customer agreements.....	1,676	—
Share-based compensation expense to employees, directors and consultants.....	59,779	57,400
Loss (gain) on fair value adjustment to warrant liabilities.....	(199,658)	120,648
Change in assets and liabilities:		
Increase in accounts receivable.....	(48,186)	(38,115)
Decrease (increase) in prepaid expenses and other.....	26,017	(3,652)
Allowance for doubtful accounts.....	191	—
Increase in deferred revenue.....	127,646	79,004
Decrease in deferred rent.....	(2,741)	(1,020)
Increase (decrease) in accounts payable and accrued liabilities.....	135,225	(8,445)
Net cash provided by (used in) operating activities.....	<u>\$ 278,492</u>	<u>\$ (83,519)</u>
Cash flows from investing activities:		
Capital expenditures.....	(5,423)	—
Net cash used in investing activities.....	<u>\$ (5,423)</u>	<u>\$ —</u>
Cash flows from financing activities:		
Proceeds from borrowing (repayment of borrowings) on credit facility.....	(28,542)	250,000
Credit facility fees.....	—	(19,751)
Repayment of finance lease obligations.....	(3,355)	(3,820)
Net cash provided by (used in) financing activities.....	<u>(31,897)</u>	<u>226,429</u>
Net increase (decrease) in cash.....	241,172	142,910
Cash and cash equivalents, beginning of the quarter.....	552,694	319,073
Cash and cash equivalents, end of the quarter.....	<u>\$ 793,866</u>	<u>\$ 461,983</u>

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ID WATCHDOG, INC.
CONSOLIDATED INTERIM CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
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Supplemental disclosure of cash flow information:			
Cash paid for interest.....	\$	17,163	\$ 4,507
Cash paid for income taxes.....		—	—
Supplemental disclosure of non-cash investing and financing activities:			
Ordinary shares issued to secure Credit Facility (Note 6).....		—	30,000

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
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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 600, 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”.

The accompanying consolidated interim condensed financial statements include the results of operations of the Company and those of 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 March 31, 2014, has an accumulated deficit of \$33,627,808. 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 benefits channel and through the tech support 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, 2014 our cash balances totaled \$793,866, and we had no additional borrowing capacity under our Credit Facility (see Note 6). We are dependent upon our existing cash balances, along with our cash flow generated from gross profits, and additional debt or equity financing, if available, to fund our operating activities, 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 depreciation, amortization, stock-based compensation, gain (loss) on warrant liability, interest expense and interest income (“EBITDA”), for the year ending December 31, 2014. Given the Company’s existing cash balances and forecast of positive EBITDA for 2014, 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, 2014.

2. Significant Accounting Policies and Basis of Presentation

(a) Statement of Compliance

The consolidated interim 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.

These consolidated interim condensed financial statements were authorized for issue by the Audit Committee of the Board of Directors on May 28, 2014.

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(b) Basis of Measurement

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

(d) 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 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 interim condensed 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 interim condensed 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 interim condensed financial statements.

(e) 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 any 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. 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.

(f) Significant Accounting Judgments and Estimates

The preparation of these consolidated interim condensed financial statements in conformity with IFRS

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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:

(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

Management has applied judgment in determining whether various contingencies and commitments require disclosure in the consolidated interim condensed 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 7 (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, and in the case of options, the forfeiture rate. Prior to the Company's adoption of IFRS 13, in certain cases, the Company also applied a discount to the quoted stock price in the Black-Scholes calculation. The expected term of stock options represents the period of time that the stock options granted are expected to be outstanding. The estimated forfeiture rate is based upon a combination of industry data and the Company's historical experience. The estimated expected share price volatility is based on the combination of the Company's historical share price volatility and the expected volatility of a similar entity with publicly-traded securities. 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. As the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero.

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(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.

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.

(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

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have specific knowledge regarding the credit quality of its customers. However, the Company has a significant number of 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, 2014, accounts receivable that are considered past due (over 30 days past due from the date of the invoice) totalled \$16,832, none of which the Company considered to be impaired. The accounts receivable, net of allowance at March 31, 2014 and December 31, 2013, was \$221,037 and \$173,042, respectively. For the three months ended March 31, 2014 and 2013, the Company recorded bad debt expense of \$191 and \$0, 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.

(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 table below is a summary of the Company's debt maturities as of March 31, 2014:

Obligation	Debt Maturity			
	April 1, 2014 to December 31, 2014	Year 2015	Year 2016	Total
Credit Facility.....	\$ 136,331	\$ 203,612	\$ 131,515	\$ 471,458
Finance leases.....	10,729	15,931	14,860	41,520
Series C Preferred.....	—	—	5,164,257	5,164,257
Total.....	<u>\$ 147,060</u>	<u>\$ 219,543</u>	<u>\$ 5,310,632</u>	<u>\$ 5,677,235</u>

(c) 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 United States dollars.

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NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
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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 undertake selective acquisitions, while at the same time taking a prudent approach towards financial leverage and management of liquidity risk.

The Company's primary sources of capital during 2013 were from borrowing on its Credit Facility and up-front payments on annual identify theft subscriptions. These sources of capital were used to fund operating deficits and debt service. The Company is not subject to any externally imposed capital requirements.

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

	March 31, 2014	December 31, 2013
Credit Facility, current and long-term	\$ 471,458	\$ 500,000
Finance leases, current and long-term.....	41,520	44,875
Deferred revenue.....	695,870	568,224
Series C Preferred.....	3,793,510	3,613,214
Shareholders' deficit	(5,031,690)	(5,055,405)
Totals.....	<u>\$ (29,332)</u>	<u>\$ (329,092)</u>

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.

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NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
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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 March 31, 2014 and 2013 were \$16,554 and \$21,804, respectively, and is included in general and administrative expenses in the consolidated statements of operations.

Cost

	Computer Hardware	Computer Software	Office Equipment	Furniture	Leasehold Improvements	Total
Balance at January 1, 2014	\$121,026	\$742,933	\$100,248	\$48,254	\$101,735	\$1,114,196
Additions	4,686	737	-	-	-	5,423
Deletions	-	-	-	-	-	-
Balance at March 31, 2014	<u>\$125,712</u>	<u>\$743,670</u>	<u>\$100,248</u>	<u>\$48,254</u>	<u>\$101,735</u>	<u>\$1,119,619</u>

Accumulated Depreciation and Amortization

Balance at January 1, 2014	\$(113,888)	\$(736,275)	\$(60,723)	\$(44,688)	\$(78,454)	\$(1,034,028)
Depreciation and amortization for the period...	(1,008)	(4,129)	(4,017)	(330)	(7,070)	(16,554)
Deletions	-	-	-	-	-	-
Balance at March 31, 2014	<u>\$(114,896)</u>	<u>\$(740,404)</u>	<u>\$(64,740)</u>	<u>\$(45,018)</u>	<u>\$(85,524)</u>	<u>\$(1,050,582)</u>

Net book value:

At December 31, 2013	\$ 7,138	\$ 6,658	\$ 39,525	\$ 3,566	\$ 23,281	\$ 80,168
At March 31, 2014	\$ 10,816	\$ 3,266	\$ 35,508	\$ 3,236	\$ 16,211	\$ 69,037

Cost of fully depreciated assets:

At December 31, 2013	\$106,321	\$697,861	\$ 23,899	\$ 41,658	\$ 17,462	\$ 887,201
At March 31, 2014	\$106,321	\$737,157	\$ 23,899	\$ 41,658	\$ 17,462	\$ 926,497

Loss on sales for the three months ended:

March 31, 2013	-	-	-	-	-	-
March 31, 2014	-	-	-	-	-	-

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

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Cost.....	\$ 149,911	\$ 149,911
Accumulated amortization.....	99,383	89,223
Net book value.....	<u>\$ 50,528</u>	<u>\$ 60,688</u>

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5. Acquisition of Identity Theft Customer Agreements

On February 12, 2013, IDR entered into a services agreement with iSekurity, Inc. ("iSekurity"), a Michigan based company in order to provide identity theft protection and resolution services to iSekurity's customers until the earlier of the closing of the purchase of the Customer Assets (as defined below) or February 28, 2014. On March 4, 2013, IDR, an indirect wholly owned subsidiary of the Company, entered into a definitive agreement to acquire approximately 1,800 identity theft protection customers and related assets (the "Customer Assets") from iSekurity. The acquisition closed on May 8, 2013 (the "Closing Date").

IDR acquired the Customer Assets from iSekurity in exchange for 1,000,000 restricted Ordinary Shares, which were valued on the Closing Date at the closing price of \$0.03 per Ordinary Share, or \$30,000, and the assumption of obligations to provide identity theft protection and resolution services to customers who had purchased annual subscriptions. The fair value of the customer obligations was estimated to be \$9,642 and was determined based upon an estimate of the costs to provide identity theft protection and resolution services to these customers over the estimated remaining terms of their subscriptions.

The purchase agreement also requires that if the acquired assets generate gross profit that exceeds certain targets (as defined in the purchase agreement) between the first anniversary and second anniversary of the Closing Date, the Company shall be required to issue to iSekurity up to an additional 1,000,000 restricted Ordinary Shares. In addition, on each anniversary of the Closing Date for a period of five years, IDR shall pay iSekurity a cash payment equal to 30% of the gross profit (as defined in the purchase agreement) in excess of certain targets. The Company does not anticipate that any of the targets will be achieved and cause the Company to provide any additional consideration under these earn out provisions. Therefore, the Company has determined that the contingent consideration has a fair value of nil and has not recorded any liability relating to these earn out provisions in the accompanying consolidated interim condensed financial statements.

The purchase of these assets did not meet the definition of a business under IFRS 3, and, therefore, the Company has accounted for the purchase of these assets as a share-based payment in accordance with IFRS 2. The consideration given to acquire the assets totaled \$39,642. The fair value of the accounts receivable was estimated to be \$6,135 and was based on the estimated amount the Company believes it will collect from the debtor. The remainder of the consideration paid was assigned to the fair value of the customer agreements.

The customer agreements will be amortized using the straight line method over 5 years, which is the estimated remaining lives at the agreements, including renewals.

Following are the amounts recognized as the Closing Date of the fair value of the assets acquired and the liabilities assumed:

Assets Acquired:	
Accounts Receivable	\$ 6,135
Customer Agreements	<u>33,507</u>
Total Assets Acquired	<u>\$ 39,642</u>
Consideration:	
Deferred Revenue	\$ 9,642
Ordinary Shares issued	<u>30,000</u>
Total Consideration	<u>\$ 39,642</u>

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6. 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. The Credit Facility matures on June 30, 2016, is secured by all of the assets of ID Rehab and bears interest at 13% per annum. Payments on the Credit Facility are interest only through 2013, with the principal and interest due in equal installment over the remaining 30 month term beginning in January 2014. The mandatory principal payments on the Credit Facility are \$180,853, \$205,816 and \$113,331 for the years ended December 31, 2014, 2015 and 2016, respectively. The borrowings from the Credit Facility will be used for general corporate purposes.

In the event that ID Rehab does not achieve certain levels of operating income before depreciation, amortization, and stock-based compensation ("EBITDA"), during calendar years 2014 and 2015, it will be required to pay additional fees to the Lender in the amounts of \$50,000 and \$100,000, respectfully. As of March 31, 2014, the Company does not believe it will achieve the required EBITDA level for 2014, but does believe it will exceed the required EBITDA level for 2015. As a result, the Company estimates that the expenditures required to settle these obligations is \$50,000, which has been recorded as accrued liabilities in the accompanying consolidated interim condensed financial statements as of March 31, 2014.

At March 31, 2014 and 2013, the Company's borrowings consisted of the following:

	<u>2014</u>	<u>2013</u>
Current borrowings:		
Current portion of finance lease obligations.....	\$ 14,512	\$ 13,108
Current portion of Credit Facility, net of facility fees.	130,887	—
Long-term borrowings:		
Credit Facility, net of facility fees.....	262,237	201,472
Finance lease obligations, net of current portion....	27,008	41,521
Total borrowings.....	<u>\$ 434,644</u>	<u>\$ 256,101</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 financing leases are as follows:

	<u>March 31, 2014</u>		<u>March 31, 2013</u>	
	<u>Present Value</u>	<u>Future Value</u>	<u>Present Value</u>	<u>Future Value</u>
Within one year.....	\$ 14,512	\$ 18,891	\$ 13,108	\$ 19,190
The second through fifth years....	27,008	29,894	41,521	48,785
Total.....	<u>\$ 41,520</u>	<u>\$ 48,785</u>	<u>\$ 54,629</u>	<u>\$ 67,975</u>

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Interest expense for the three months ended March 31, 2014 and 2013 consisted of the following:

	Three Months Ended March 31,	
	2014	2013
Accrued dividends on Series C Preferred.	\$ 61,470	\$ 60,627
Amortization of Series C Preferred liquidation preference.	43,012	42,423
Amortization of fair value of Series C Preferred detachable warrants.	47,087	46,442
Amortization of offering costs	28,727	28,334
Interest expense on capitalized leases and debt	18,412	8,471
Amortization of deferred financing fees.....	17,757	—
Total.....	\$ 216,465	\$ 186,297

7. 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.

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 March 31, 2014, the Series C Preferred shares outstanding and the Series C Preferred liability were 3,073,481 and \$3,793,510 respectively.

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

In accordance with IAS 32, 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 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. 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 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.

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On January 27, 2011, the Company authorized the Series C Preferred no par value shares and included the preferences, limitations and rights described below. At the same time, 3,000 authorized but unissued share in the Company were, by resolution of the Board of Directors of the Company, allotted for issuance as shares of Series C Preferred. Upon closing of the Recapitalization on February 24, 2011, the Company issued 3,123.481 shares of Series C Preferred. While the number of shares of Series C Preferred issued exceeded the number of shares initially authorized by the Board of Directors, it is allowable under the laws of the Cayman Islands to ratify and confirm the issuance of the additional 123.481 shares of Series C Preferred so long as the total authorized share capital of the Company has not been exceeded. In June 2011, the Board of Directors of the Company approved a resolution to ratify and confirm the issuance of the additional 123.481 shares of Series C Preferred from 3,000 to 3,123.481.

Assuming that none of the Series C Preferred that were outstanding as of March 31, 2014 are converted to Ordinary Shares and all are held until the Mandatory Redemption Date, the Company projects that the redemption value Series C Preferred, net of discount and conversion features will accrete as follows:

	For the three months ended March 31, 2014	For the years ended December 31,		For the period January 1, 2016 through February 24, 2016
		2014	2015	
Balance, January 1	\$ 3,613,214	\$ 3,613,214	\$ 4,334,395	\$ 5,055,578
Accrued Dividends	61,740	245,878	245,878	37,051
Amortization of liquidation preference	43,012	172,048	172,048	25,928
Amortization of fair value of detachable warrants	47,087	188,346	188,347	28,383
Amortization of offering costs	28,727	114,909	114,910	17,317
Balance, end of the period	<u>\$ 3,793,510</u>	<u>\$ 4,334,395</u>	<u>\$ 5,055,578</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 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 were converted into Ordinary Shares of the Company.

(c) Voting Rights

Series C Preferred has 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 before: a) declaring or paying cash dividends on Ordinary Shares b) authorizing or issuing additional shares of Series C Preferred, 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, 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 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 are obligated to convert ("Mandatory Conversion") their shares into ordinary shares at the applicable conversion price on the date on 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 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 (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.

(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 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 the Vendor Ordinary Shares as well as all Ordinary Shares of the Company reserved for issuance upon conversion of the Series C Preferred or exercise of the various warrants issued pursuant to the Recapitalization (collectively the "Registerable Shares"). The Company has investigated the registration of the Registerable shares and has determined not to pursue such registration.

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(h) Other Covenants

The term of the Series C Preferred 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 EBITDA (Earnings before interest, taxes, depreciation and amortization expense) and then only if such indebtedness is junior in ranking to the Series C Preferred;
- Issue any new preferred stock that, in liquidation, ranks senior or pari passu with the Series C Preferred; and
- Make any distributions in cash or in kind to the holders of its Ordinary Shares.

8. Commitments and Contingencies

On November 19, 2012, the Company entered into a two year agreement with a certain data provider, which was effective on January 1, 2013, 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 July 2011, the Company entered into an agreement to lease office space in Denver, Colorado. The lease commenced on September 1, 2011, has a 38 month term with an option to extend the lease for an additional two years. The Company's minimum lease payments for 2014 are \$66,666. The minimum lease payments are subject to changes based contractual payment adjustments to accommodate additional employees in the office space and annual lease payment adjustments. In addition, the Company agreed to pay the lessor monthly payments of \$2,468 for leasehold improvements paid for by the lessor. The scheduled finance lease payments for 2014 are \$24,685.

For the three months ended March 31, 2014 and 2013, the Company recognized rent expense for this office lease of \$16,365 and \$18,949, respectively, which is reflected in general and administrative expense in the accompanying statement of operations.

The Company entered into a two year agreement with a data provider which was effective on April 1, 2014, 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.

9. 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. 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. Stock-based

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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, 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 combination of the Company's historical share price volatility and the expected volatility of a similar entity with publicly-traded securities. 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 rate variable in the Black-Scholes model is zero.

The Company did not grant any stock options for the three months ended March 31, 2014 and 2013.

A summary of options activity under the Plan for the three months ended March 31, 2014 and 2013 is as follows:

Stock Options Denominated in U.S. Dollars

	Three Months Ended March 31,			
	2014		2013	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period....	13,820,000	\$ 0.16	13,277,000	\$ 0.25
Granted.....	—	—	—	—
Expired/ Forfeited.....	(192,000)	0.20	—	—
Exercised.....	—	—	—	—
Outstanding, end of period.....	<u>13,628,000</u>	<u>\$ 0.16</u>	<u>13,277,000</u>	<u>\$ 0.25</u>
Exercisable, end of period.....	<u>8,369,558</u>	<u>\$ 0.19</u>	<u>8,398,250</u>	<u>\$ 0.28</u>

On November 27, 2013, the Company granted to officers and employees of the Company Options to acquire an aggregate of 5,013,000 Ordinary Shares and granted to Directors of the Company Options to acquire an aggregate of 700,000 Ordinary Shares under the Plan, respectively. Such Options are exercisable at a price of U.S. \$0.10 per ordinary share, expire seven years from the date of grant and are subject to the terms and conditions of the Plan.

During 2013, 3,074,000 options were forfeited or expired at a weighted average exercise price of \$0.35 per option. In addition, on December 6, 2013, the Company and certain of its officers and Directors agreed to cancel a total of 2,096,000 Options that were exercisable at a price of U.S. \$0.27 per ordinary share.

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Stock Options Denominated in Canadian Dollars

	Three Months Ended March 31,			
	2014		2013	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period....	300,000	\$ 0.60	900,000	\$ 0.60
Granted.....	—	—	—	—
Expired/Forfeited.....	(300,000)	0.60	—	—
Outstanding, end of period.....	—	\$ —	900,000	\$ 0.60
Exercisable, end of period.....	—	\$ —	900,000	\$ 0.60

A summary of stock options outstanding and stock options exercisable at March 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.....	9,873,000	6.08	4,833,724
\$0.16-\$0.25.....	—	—	—
\$0.26-\$0.40.....	3,430,000	2.21	3,210,834
\$0.41-\$0.56.....	325,000	0.62	325,000
	<u>13,628,000</u>	<u>4.98</u>	<u>8,369,558</u>

10. Share-based Compensation Expense:

A summary of share-based compensation expense follows:

	Three Months Ended March 31,	
	2014	2013
Share-based compensation expense – employees and directors.....	\$ 59,113	\$ 54,566
Share-based compensation expense – consultants.....	666	2,834
Total share-based compensation expense.....	<u>\$ 59,779</u>	<u>\$ 57,400</u>

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11. Warrants

The Company did not issue any warrants during the three month periods ended March 31, 2014 and 2013.

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

Exercise Prices	Shares	Weighted Average Remaining Contractual Term (years)
\$0.10-\$0.15.....	30,013,068	2.14
\$0.16-\$0.20.....	9,053,241	0.79
\$0.21-\$0.25.....	8,493,333	2.61
\$0.26-\$0.29.....	5,651,199	1.09
Outstanding as of March 31, 2014.....	<u>53,210,841</u>	<u>1.88</u>

A summary of warrant activity for the three months ended March 31, 2014 and 2013 follows:

	Three Months Ended March 31,			
	2014		2013	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	53,210,841	\$ 0.18	57,337,090	\$ 0.22
Issued	—	—	—	—
Exercised	—	—	—	—
Expired.....	—	—	(3,000,000)	0.10
Outstanding, end of period	<u>53,210,841</u>	<u>\$ 0.18</u>	<u>54,337,090</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 March 31, 2014 and December 31, 2013, 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 consolidated interim condensed statements of financial position as liabilities at their fair value. At March 31, 2014 and December 31, 2013, the warrant liability totaled \$598,977 and \$798,635, respectively.

12. Significant Customers

For the three months ended March 31, 2014, the Company's recorded revenues of \$108,707, or 13.8%, from its largest customer. No other customers accounted for more than 10% of the Company's total revenues.

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13. Comparative Amounts

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation. Such reclassifications had no effect on operating loss or net loss.