

ID WATCHDOG, INC.

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2013 AND 2012

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 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, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 461,983	\$ 319,073
Accounts receivable.....	182,676	144,561
Prepaid expenses and other, net	77,118	73,466
Total current assets	721,777	537,100
Property and equipment, net (Note 6)	131,931	153,735
Loan fees, net.....	48,528	—
Total assets	\$ 902,236	\$ 690,835
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 185,725	\$ 174,720
Accrued liabilities	326,964	346,414
Current portion of capital lease obligation (Note 4)	13,108	13,574
Deferred revenue	346,060	267,056
Total current liabilities	871,857	801,764
Deferred Rent	88,903	89,923
Capital lease obligation, net of current portion (Note 4)	41,521	44,875
Credit Facility (Note 4).....	250,000	—
Series C Preferred mandatorily redeemable preferred shares, net of discount and conversion feature (Note 3)	3,069,857	2,892,031
Warrant Liability (Note 9)	220,478	99,830
Total liabilities	4,542,616	3,928,423
Commitments and Contingencies (Notes 1,4 and 11)		
SHAREHOLDERS' DEFICIT		
Share capital (Note 3, 4, 7, 9, 10 and 12):		
Preferred shares; 450,000,000 shares authorized		
Ordinary shares; no par value; 450,000,000 shares authorized:		
Ordinary Shares: 119,834,997 and 118,834,997 shares issued, respectively.....	24,572,696	24,542,696
Contributed Surplus	2,017,742	1,960,342
Warrants	1,576,765	1,576,765
Accumulated deficit	(31,807,583)	(31,317,391)
Total shareholders' deficit	(3,640,380)	(3,237,588)
Total liabilities and shareholders' deficit	\$ 902,236	\$ 690,835

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

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

	Three Months Ended March 31,	
	2013	2012
Revenue	\$ 554,488	\$ 444,057
Cost of revenue	148,253	286,010
Gross profit	406,235	158,047
Operating expense:		
General and administrative expense	382,904	426,272
Sales and Marketing expense	127,378	92,077
Stock – based compensation expense (Note 8)	57,400	231,333
Depreciation and amortization expense (Note 6)	21,804	23,934
	589,486	773,616
Operating loss.....	(183,251)	(615,569)
Other income (expense):		
Gain (loss) on warrant liability.....	(120,648)	185,203
Interest income	4	3,439
Interest expense (Note 5)	(186,297)	(186,892)
	(306,941)	1,750
Net income (loss) and comprehensive income (loss) applicable to ordinary shares	\$ (490,192)	\$ (613,819)
Basic and diluted net income (loss) per share applicable to ordinary shares	\$ (0.00)	\$ (0.01)
Weighted average number of shares outstanding basic and diluted	119,401,664	118,278,733

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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,

	Ordinary Shares	Ordinary Shares Amount	Contributed Surplus	Warrants	Accumulated Deficit	Total Shareholders' Deficit
Balances December 31, 2011	118,014,997	\$ 24,470,534	\$ 1,440,371	\$1,571,121	(\$ 29,166,387)	(\$ 1,684,361)
Net loss.....	—	—	—	—	(613,819)	(613,819)
Share based compensation expense and stock options issued for services.....	—	—	231,333	—	—	231,333
Shares and warrants issued in exchange of \$38,400 trade payable debt, net of issuance costs (Note 12).....	320,000	31,985	—	5,644	—	37,629
Balance, March 31, 2012.....	<u>118,334,997</u>	<u>\$ 24,502,519</u>	<u>\$ 1,671,704</u>	<u>\$1,576,765</u>	<u>(\$ 29,780,206)</u>	<u>(\$ 2,029,218)</u>

Three Months Ended March 31, 2013

	Ordinary Shares	Ordinary Shares Amount	Contributed Surplus	Warrants	Accumulated Deficit	Total Shareholders' Deficit
Balances December 31, 2012	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 for credit facility	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>

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

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

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net loss	\$ (490,192)	\$ (613,819)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	21,804	23,934
Interest expense – accrued dividends on Series C Preferred shares amortization of liquidation preferences, discount on warrants and debt offering costs.....	179,049	183,296
Share-based compensation expense to employees, directors and consultants.....	57,400	231,333
Gain (loss) on fair value adjustment to warrant liabilities.....	120,648	(185,203)
Changes in assets and liabilities:		
Increase (decrease) in accounts receivable	(38,115)	2,075
Increase (decrease) in prepaid expenses and other	(3,652)	7,301
Allowance for uncollectible note receivable.....	—	1,151
Increase in deferred revenue	79,004	13,179
Decrease in deferred rent.....	(1,020)	(395)
Increase (decrease) in accounts payable and accrued liabilities.....	(8,445)	11,811
Net cash used in operating activities	(83,519)	(325,337)
Cash flows from investing activities:		
Sale of available for sale securities.....	—	245,000
Capital expenditures	—	(2,521)
Net cash provided by investing activities	—	242,479
Cash flows from financing activities:		
Proceeds from borrowing on credit facility.....	250,000	—
Credit Facility Fees.....	(19,751)	—
Issuance costs related to conversion of trade payables into ordinary shares.....	—	(771)
Repayment of capital lease obligations	(3,820)	(4,186)
Net cash provided by (used in) financing activities	226,429	(4,957)
Net increase (decrease) in cash	\$ 142,910	\$ (87,815)
Cash and cash equivalents, beginning of the year	319,073	854,688
Cash and cash equivalents, end of the year	\$ 461,983	\$ 766,873
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 4,507	\$ 3,596
Supplemental disclosure of non-cash investing and financing activities:		
Ordinary shares and warrants issued upon the conversion of accounts payable	—	38,400
Ordinary Shares issued to secure credit facility.....	30,000	—

The accompanying notes are an integral part of these unaudited interim consolidated 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 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 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 accompanying financial statements were prepared on a going concern basis. The going concern basis assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The Company has incurred operating losses and net losses since its inception and has funded these losses primarily through funds raised in its Initial Public Offering ("IPO") and from private placements of debt and equity securities.

We utilize strategic partner distribution channels to assist us in selling our identity theft protection services to our partners' customer bases. These channels include the following:

- **Employee Benefit Channel.** A significant portion of our existing customers were acquired through relationships with entities that focus on designing and negotiating customized employee benefit programs for their employer clients ("Benefits Brokers"). In this channel, our Benefit Broker partners promote our services to their employers clients who then offer our services as a voluntary employee benefit as part of their employee benefit program (the "**Employee Benefit Channel**"). We are seeking to expand this sales channel and ultimately our customer base by significantly expanding the number of these Benefit Broker relationships.
- **Anti-Virus Channel.** The Company has partnered with certain anti-virus and other desktop software providers to provide its identity theft protection services as a complimentary add-on product offering directly to the partners' end-users through their customers' desktops (the "**Anti-Virus Channel**").
- **Tech Support Channel.** In this channel our partners, who provide personal computer performance enhancement services, sell our services as an add-on product offering directly to their customers (the "**Tech Support Channel**").

The Company will seek to grow its customer base primarily through the Employee Benefits Channel and through its Tech Support Channel. The Company continues to make progress in expanding its

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network of Benefit Brokers who market our services to their employer clients' for inclusion in the client's employee benefit plans as a voluntary employee benefit.

The Company began to develop the Anti-Virus Channel in early 2011 and, to date; this channel has not generated a meaningful number of customers or revenues. Further, the early results from the July 2012 launch of a significant anti-virus software provider have been substantially below our expectations. Therefore, we are not anticipating any meaningful revenue growth in the short-term and there can be no assurance that the Company will be successful over the long-term in generating any significant revenue from the Anti-Virus Channel.

Our cash balances and as of March 31, 2013 totaled \$461,983. We are dependent upon our existing cash balances, along with our cash flow generated from gross profits, available borrowings under our Credit Facility (as defined below), if any, and/ or additional debt or equity financing to fund our operating activities, our expansion plans and other working capital needs.

We anticipate meaningful sequential revenue growth through the balance of 2013, driven by the acquisition of the iSecurity customers (see Note 12) and from growth from our Employee Benefits Channel and our Tech Support Channel. Based on this projected revenue growth, as well as improved gross margins, the Company believes that it will likely generate positive operating income, before depreciation, amortization and stock-based compensation, beginning in the fourth quarter of 2013. Also, the Company believes it will exceed the financial targets required in order to borrow the Second Draw (as defined below) on its Credit Facility (as defined below). Given the Company's existing cash balances, the likelihood it will be able to borrow the Second Draw (as defined below) on its Credit Facility (as defined below) and declining operating losses, 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, 2013.

However, should the Company fall short of its projected revenue forecast, be unable to borrow the Second Draw (as defined below) or secure other financing in a timely fashion, we will likely need to take further measures to reduce our operating costs and improve our working capital position and we may not be successful in achieving our revenue and operating income targets. While we believe we can reduce costs to achieve positive operating cash flow in the short-term, given our current level of revenue, further cost reductions may limit our ability to grow our revenue, both in the short and long-term.

On November 19, 2012, the Company entered into a new two year agreement with one of its data providers, which became effective on January 1, 2013, requires the Company to pay a monthly fee equal to the greater of actual data usage priced at the contractual rates or \$10,000 and terminated the previous data agreements with this provider effective December 31, 2012. This new data agreement reduces our minimum payment for these data services by \$40,000 per month beginning January 1, 2013.

To further improve our financial flexibility, 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 may, at its discretion, borrow an additional \$250,000 (the "Second Draw") on or before July 31, 2013, if certain financial targets are achieved. At closing the Company issued to the Lender 1,000,000 of its Ordinary Shares and is required to issue an additional 1,000,000 of its Ordinary Shares to the Lender, if the Second Draw is borrowed, as a Credit Facility fee. 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 installments over the remaining 30 month term. The borrowings from the Credit Facility will be used for general corporate purposes.

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2. Basis of Presentation

(a) Statement of Compliance

The consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards 34 - Interim Financial Reporting and do not contain all the information required for full annual financial statements.

The accounting policies and methods of computation applied in these consolidated interim condensed financial statements are consistent with those used in the preparation of the December 31, 2012 audited financial statements, except for the impact of the adoption of the standards, described below.

(b) Standards adopted with an effect on the financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13")

IFRS 13 provides a precise definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosure relating to fair value measurements. The standard will be effective for annual periods beginning on or after January 1, 2013. The new requirements will result in additional disclosures about all assets and liabilities measured at fair value on the financial statements upon adoption.

The Company has adopted IFRS 13 effective for financial years beginning January 1, 2013. Prior to January 1, 2013, in the Company applied a discount to the quoted stock price in valuing certain of its warrants and options. Under IFRS 13, if there is a quoted price in an active market (i.e. a Level 1 input), an entity shall use that price without adjustment when measuring fair value. The adoption of IFRS 13 has not had any significant impact on the amounts reported or disclosure made in these financial statements, but may affect the accounting for future transactions or disclosures in the Company's financial statements.

(c) Standards adopted with no effect on the financial statements.

The following revised standards are effective for annual periods beginning on January 1, 2013 and their adoption has not had any impact on the amounts reported or disclosures made in these financial statements but may affect the accounting for future transactions, arrangements or disclosures in the Company's 2013 annual consolidated financial statements:

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes principles for the presentation of consolidated financial statements when an entity controls one or more entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The adoption of IFRS 10 did not have a meaningful impact on the Company's financial statements.

(d) Basis of Measurement

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

(e) Functional and Presentation Currency

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

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(f) Approval of Financial Statements

These consolidated financial statements approved and authorized for issue by the Audit Committee of the Board of Directors on May 28, 2013.

3. 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, 2013, the Series C Preferred shares outstanding were 3,073,481 and the Company has reserved 30,734,810 of its Ordinary Shares to effect the conversion of Series C Preferred.

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.

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.

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Assuming that none of the Series C Preferred that were outstanding as of March 31, 2013 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, 2013	For the years ended December 31,			
		2013	2014	2015	2016
Balance, beginning of the period	\$ 2,892,031	\$ 2,892,031	\$ 3,613,214	\$ 4,334,395	\$ 5,055,578
Accrued Dividends	60,627	245,879	245,878	245,878	37,051
Amortization of liquidation preference	42,423	172,048	172,048	172,048	25,928
Amortization of fair value of detachable warrants	46,442	188,347	188,346	188,347	28,383
Amortization of offering costs	28,334	114,909	114,909	114,910	17,317
Balance, end of the period	<u>\$ 3,069,857</u>	<u>\$ 3,613,214</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 was 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.

(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

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- 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 (a) original issue price of \$1,000 per share plus (b) 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.

(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.

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4. 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 may, at its discretion, borrow an additional \$250,000 (the "Second Draw") on or before July 31, 2013, if certain financial targets are achieved. At closing the Company paid the Lender an origination fee by issuing to the lender 1,000,000 of its Ordinary Shares and will issue an additional 1,000,000 of its Ordinary Shares to the Lender, if the Second Draw is borrowed. 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. The mandatory principal payments on the Credit Facility are \$0, \$90,427, \$102,909 and \$56,664 for the years ended December 31, 2013, 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, it will be required to pay additional fees to the Lendor as follows:

Total Borrowings	\$	250,000	\$	500,000
Additional Fees 2014	\$	25,000	\$	50,000
Additional Fees 2015	\$	50,000	\$	100,000

Because ID Rehab believes that it is more likely than not that it will achieve these targets, no liability has been recorded for these fees in the accompanying financial statements.

At March 31, 2013 and 2012, the Company's borrowings consisted of the following:

	<u>2013</u>	<u>2012</u>
Current borrowings:		
Current portion of finance lease obligations	\$ 13,108	14,749
Long-term borrowings:		
Credit Facility	250,000	—
Finance lease obligations, net of current portion.....	41,521	55,114
Total borrowings.....	<u>\$ 304,629</u>	<u>\$ 69,863</u>

In May 2011, the Company entered into a capital lease for a printer/copier machine. The lease has a two year term and a bargain purchase option at the end of the lease. The monthly lease payments are \$299.

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.

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

	<u>March 31, 2013</u>		<u>March 31, 2012</u>	
	<u>Present Value</u>	<u>Future Value</u>	<u>Present Value</u>	<u>Future Value</u>
Within one year.....	\$ 13,108	\$ 19,190	\$ 14,749	\$ 23,177
The second through fifth years.....	41,521	48,785	55,114	66,400
Total	<u>\$ 54,629</u>	<u>\$ 67,975</u>	<u>\$ 69,863</u>	<u>\$ 89,577</u>

5. Interest Expense

Interest expense for the three month periods ended March 31, 2013 and 2012 consisted of the following:

	<u>Three Months Ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Accrued dividends on Series C Preferred	\$ 60,627	\$ 62,470
Amortization of Series C Preferred liquidation preference	42,423	43,736
Amortization of fair value of Series C Preferred detachable warrants	46,442	47,879
Amortization of offering costs	28,334	29,211
Interest expense on capitalized leases and debt	8,471	3,596
	<u>\$ 186,297</u>	<u>\$ 186,892</u>

6. 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, 2013 and 2012 was \$21,804 and \$23,934 respectively, and is included in general and administrative expenses in the consolidated statements of operations.

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The cost, accumulated depreciation and amortization and net book value of computer hardware, computer software, furniture and equipment and leasehold improvements is summarized as follows:

Cost

	Computer Hardware	Computer Software	Office Equipment	Furniture	Leasehold Improvements	Total
Balance at December 31, 2012	\$ 117,953	\$ 739,664	\$ 100,248	\$ 48,254	\$ 101,735	\$ 1,107,854
Additions	-	-	-	-	-	-
Deletions	-	-	-	-	-	-
Balance at March 31, 2013	\$ 117,953	\$ 739,664	\$ 100,248	\$ 48,254	\$ 101,735	\$ 1,107,854

**Accumulated
Depreciation and
amortization**

Balance at December 31, 2012	\$ (110,733)	\$(705,720)	\$ (44,303)	\$ (43,131)	\$ (50,232)	\$ (954,119)
Depreciation and amortization for the period	(1,056)	(9,168)	(4,113)	(411)	(7,056)	(21,804)
Deletions	-	-	-	-	-	-
Balance at March 31, 2013	\$ (111,789)	\$(714,888)	\$ (48,416)	\$ (43,542)	\$ (57,288)	\$ (975,923)

Net book value:

At December 31, 2012	\$ 7,220	\$ 33,944	\$ 55,945	\$ 5,123	\$ 51,503	\$ 153,735
At March 31, 2013	\$ 6,164	\$ 24,776	\$ 51,832	\$ 4,712	\$ 44,447	\$ 131,931

**Cost of Fully Depreciated
Assets at::**

At December 31, 2012	\$ 88,834	\$ 652,718	\$ 42,079	\$ 22,172	\$ 19,818	\$ 825,621
At March 31, 2013	\$ 88,834	\$ 652,718	\$ 42,079	\$ 22,172	\$ 19,818	\$ 825,621

**Loss on sales for the years
ended:**

December 31, 2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
March 31, 2013	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

	<u>March 31,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Cost.....	\$ 155,911	\$ 155,911
Accumulated amortization.....	(62,408)	(51,748)
Net Book Value.....	<u>\$ 93,503</u>	<u>\$ 104,163</u>

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7. 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 plan was further amended on February 23, 2012, when the shareholder’s approved an increase in the number of Ordinary Shares which may be granted under the plan to 20,000,000 and 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.

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 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 following table summarizes the assumptions used to value stock options granted during the three months ended March 31, 2013 and 2012:

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	Three Months Ended March 31,	
	2013	2012
Weighted average share price.....	—	\$ 0.27
Expected term	—	2.5-3.3 years
Estimated volatility	—	112%
Risk-free interest rate	—	0.27%-0.43%
Dividend Yield.....	—	0%
Estimated forfeiture rate	—	5.0%
Total Fair Value.....	—	\$ 78,040
Weighted average grant date fair value per option.....	—	\$ 0.02

A summary of options activity under the Plan for the three months ended March 31, 2013 and 2012 is as follows:

Stock Options Denominated in U.S. Dollars

	Three Months Ended March 31,			
	2013		2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	13,277,000	\$ 0.25	9,690,000	\$ 0.32
Granted	—	—	4,072,000	0.26
Expired/ Forfeited	—	—	—	—
Exercised	—	—	—	—
Outstanding, end of period	13,277,000	\$ 0.25	13,762,000	\$ 0.30
Exercisable, end of period	8,398,250	\$ 0.28	6,349,028	\$ 0.30

On September 17 and September 24, 2012, the Company granted to officers and employees of the Company Options to acquire an aggregate of 2,915,000 Ordinary Shares and granted to Directors of the Company Options to acquire an aggregate of 1,200,000 Ordinary Shares under the Plan, respectively. Such Options are exercisable at a price of U.S. \$0.12 per ordinary share, expire seven years from the date of grant and are subject to the terms and conditions of the Plan.

Also, on September 24, 2012, the Company granted to a consultant of the Company Options to acquire an aggregate of 500,000 Ordinary shares under the Plan. Such Options are exercisable at a price of U.S. \$0.12 per ordinary share, expire seven years from the date of grant and are subject to the terms and conditions of the Plan.

On September 21 and September 28, 2012, the Company and certain of its officers and Directors agreed to cancel a total of 4,500,000 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,			
	2013		2012	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	900,000	\$ 0.60	900,000	\$ 0.60
Granted	—	—	—	—
Expired/Forfeited.....	—	—	—	0.60
Outstanding, end of period	<u>900,000</u>	<u>\$ 0.60</u>	<u>900,000</u>	<u>\$ 0.60</u>
Exercisable, end of period	<u>900,000</u>	<u>\$ 0.60</u>	<u>900,000</u>	<u>\$ 0.60</u>

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A summary of stock options outstanding and stock options exercisable at March 31, 2013 follows:

Stock Options Denominated in U.S. Dollars			
<u>Exercise Prices</u>	<u>Stock Options Outstanding</u>		<u>Stock Options Exercisable</u>
	<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Term (In years)</u>	<u>Number of Shares</u>
\$0.10-\$0.15	4,915,000	6.31	2,347,501
\$0.16-\$0.25	-	-	-
\$0.26-\$0.40	6,747,000	3.21	4,435,749
\$0.41-\$0.60	1,615,000	0.63	1,615,000
	<u>13,277,000</u>	<u>4.04</u>	<u>8,398,250</u>

Stock Options Denominated in Canadian Dollars			
<u>Exercise Prices</u>	<u>Stock Options Outstanding</u>		<u>Stock Options Exercisable</u>
	<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Term (In years)</u>	<u>Number of Shares</u>
\$0.60	900,000	0.68	900,000

8. Share-based compensation expense:

A summary of share-based compensation expense follows:

	<u>Three Months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>
Share-based compensation expense – employees and directors	\$ 54,566	\$ 231,333
Share-based compensation expense – consultants	2,834	—
Total share-based compensation expense	<u>\$ 57,400</u>	<u>\$ 231,333</u>

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9. Warrants

The following are the assumptions used to value the warrants granted during the three months ended March 31, 2013 and 2012:

	March 31,	
	2013	2012
Stock Price, in U. S dollars.	\$ —	\$ 0.06
Expected term	—	4.8 years
Estimated volatility	—	113%
Risk free interest rate	—	0.79%
Dividend yield	—	0%
Weighted average fair value of the warrants issued.....	—	\$ 0.018

The following tables present the composition of warrants outstanding as of March 31, 2013:

Warrants Denominated in U.S. Dollars		
Exercise Prices	Shares	Weighted Average Remaining Contractual Term (years)
\$0.03-\$0.15	30,652,469	3.08
\$0.16-\$0.20	—	—
\$0.21-\$0.30	23,197,773	2.53
\$0.31-\$0.48	486,848	0.43
Outstanding as of March 31, 2013	54,337,090	2.82

A summary of warrant activity for the three months ended March 31, 2013 and 2012 follows:

	Warrants Denominated in U.S. Dollars			
	Three Months Ended March 31,			
	2013	Weighted Average Exercise Price	2012	Weighted Average Exercise Price
	Shares		Shares	
Outstanding, beginning of period	57,337,090	\$ 0.22	72,268,292	\$ 0.22
Issued	—	—	320,000	0.20
Exercised	—	—	—	—
Expired	(3,000,000)	0.10	—	—
Outstanding, end of period	54,337,090	\$ 0.18	72,588,292	\$ 0.22

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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, 2013, 19,965,886 and 639,401 warrants with exercise prices of \$.12 per Ordinary Share and \$.03 per Ordinary Share, respectively, included such anti-dilution provisions (the "Warrants"). As of March 31, 2012, 19,965,886 and 3,639,401 warrants with exercise prices of \$.12 per Ordinary Share and \$.10 per Ordinary Share, respectively, included such anti-dilution provisions (the "Warrants"). Because of the nature of these anti-dilution provisions, the Company is required to reflect these warrants on the consolidated statement of financial position as liabilities at their fair value. At March 31, 2013 and 2012, the warrant liability totaled \$220,478 and \$439,399, respectively.

The Company uses the Black-Scholes option pricing model to value the Warrants. 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 Warrants. The expected term of the Warrants represents the remaining term of the Warrants. 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. As the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero. The following table summarizes the assumptions used to value the Warrants as of March 31, 2013 and December 31, 2012:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Ordinary Share price.....	\$0.03	\$0.018
Expected term	0.16-2.9 years	0.08-3.15 years
Estimated volatility	108%	108%
Risk-free interest rate	0.73%	0.72%
Dividend Yield.....	0%	0%
Total Fair Value.....	\$ 220,478	\$ 99,829

10. Issuance of Ordinary Shares and Warrants

On January 16, 2012, the Company satisfied \$38,400 of vendor trade payables by issuing to the vendor 320,000 of its Ordinary Shares and two ordinary share purchase warrants (each, a "Warrant"). The first Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S. \$0.15 and the second Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S. \$0.25. Both the first and the second Warrant will expire on January 16, 2017.

11. Commitments and Contingencies

On March 1, 2011, the Company entered into a three year data services agreement, which rate terms are effective on July 1, 2011 and are a supplement to an existing data services agreement with the same provider (the "Data Agreements"). The agreement requires the Company to pay the greater of actual data fees incurred or \$50,000 per month.

On November 19, 2012, the Company entered into a new two year agreement with this data provider which becomes effective on January 1, 2013, requires the Company to pay a monthly fee based on the

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greater of actual data usage priced at contractual rates or \$10,000 per month and terminates the Data Agreements effective December 31, 2012.

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 2013 and 2014 are \$77,917 and \$66,666, respectively. 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 2013 and 2014 are \$29,622 and \$24,685 respectively.

For the three months ended March 31, 2013 and 2012, the Company recognized rent expense for this office lease of \$18,949 and \$20,349, respectively, which is reflected in general and administrative expense in the accompanying statement of operations.

12. Subsequent Events

Acquisition of Identity Theft Customers

On February 12, 2013, IDR entered into a services agreement with iSekurity, Inc ("iSekurity"), a Michigan based company, to provide billing, customer support and identity theft protection and resolution services to iSekurity's customers. The services agreement will continue 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.

IDR acquired the Customer Assets from iSekurity in exchange for 1,000,000 restricted Ordinary Shares. In addition, if certain net sales (as defined in the purchase agreement) targets are achieved, the Company will be required to issue to iSekurity up to an additional 1,000,000 restricted Ordinary Shares by no later than the second anniversary of the closing of the purchase.