

ID Watchdog, Inc.
Management's Discussion and Analysis
For the three months ended March 31, 2013

Introduction

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of ID Watchdog, Inc.'s (the "Company's or the "Company") consolidated results of operations and financial position. This "Management's Discussion and Analysis" ("MD&A") should be read in conjunction with the unaudited interim financial statements for the three months ended March 31, 2013 and the audited annual consolidated financial statements of the Company for the year ended December 31, 2012 and the notes thereto. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in US dollars as all of the Company's revenues and expenses are recorded in US dollars. Additional information on the Company, including the Company's audited financial statements for the year ended December 31, 2012, can be obtained from SEDAR at www.sedar.com as well as from the Company's website at www.idwatchdog.com in the "Company Overview" section. Information contained in this report is qualified by reference to the discussion concerning forward-looking information and statements beginning on page 18 of this MD&A.

Definitions Relative to Understanding our Results

Income from Operations before Depreciation and Amortization and Stock-Based Compensation ("EBITDA")

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

International Financial Reporting Standards ("IFRS")

The Company's unaudited interim consolidated financial statements and the financial information included in this MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective as of May 28, 2013.

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

Background and Description of Business

The Company provides a variety of identity theft detection, protection and resolution services primarily to individual customers on a subscription basis, through its wholly owned subsidiary, Identity Rehab Corporation, which was founded in 2005.

Identity theft occurs when someone fraudulently uses personal identifying information (e.g. name, birth date, social security number, credit card number) to obtain goods or services under

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the identity theft victim's name. The FBI has described identity theft as one of the fastest growing crimes in the United States.

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

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

Marketing of Services

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. We commenced these expansion efforts in the second quarter of 2012 and we are in the early stages of building a nationwide network of Benefits Brokers.

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- **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**"). The Company is offering "free alerts", which are comprised of personal alerts based upon changes to the individual's credit report, as well as generic informational alerts. These "free alerts" we believe, over the long-term, will form a foundation upon which the Company will seek to upgrade users from "free alerts" to a premium identity theft protection product. While the Company will not be paying for access to market to our partners' customers, we will be sharing in the revenue from each sale with our partners

In early 2011, the Company began to develop the Anti-Virus Channel and has partnering agreements with four anti-virus software companies and one desktop software company. As of July 2012, the Company had integrated and launched its services with all of its partners.

- **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**").

Consumer Marketing Channel. In the past the Company utilized direct consumer advertising, telemarketing and on-line affiliate marketing programs to sell its services (the "**Consumer Marketing Channel**"). While these marketing tactics generated significant new customer growth, we determined that high customer acquisition costs, in addition to consuming cash resources, delayed the break-even point to unacceptably long periods. While the Company no longer utilized these strategies to sell its services, we still provide services to a significant number of subscribers that were sold through the Consumer Marketing Channel.

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Results of Operations

The financial information set out below is based on and derived from our unaudited interim consolidated statements of operations for the three months ended March 31, 2013 and 2012.

	For the Three Months ended March 31,	
	2013	2012
	(unaudited)	(unaudited)
Revenue	\$554,488	\$ 444,057
Gross profit	406,235	158,047
Gross profit margin	73.3%	35.6%
Operating expenses		
General and Administrative	382,904	426,272
Marketing expense	127,378	92,077
Stock – based compensation expense	57,400	231,333
Depreciation and amortization expense	21,804	23,934
Operating Loss	(183,251)	(615,569)
EBITDA	(104,047)	(360,302)
Net income (loss) and comprehensive 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

Balance Sheet Data:

	As of December 31,	
	2013	2012
Cash and cash equivalents and available-for sale securities	\$ 461,983	\$ 319,073
Total Assets	902,236	690,835
Total long term liabilities	3,670,759	3,126,659
Total liabilities	4,542,616	3,928,423
Total Shareholders' deficit	\$ (3,640,380)	\$ (3,237,588)

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Summary of Quarterly Results

(Amounts presented in U.S. Dollars)

	<u>March 31, 2013</u>	<u>December 31, 2012</u>	<u>September 30, 2012</u>	<u>June 30, 2012</u>
Revenue	\$ 554,488	\$ 460,093	\$ 434,052	\$ 470,320
Operating (loss)	\$ (183,251)	\$ (346,382)	\$ (466,127)	\$ (512,045)
EBITDA.....	\$ (104,047)	\$ (250,493)	\$ (340,466)	\$ (378,242)
Net loss	\$ (490,192)	\$ (390,311)	\$ (646,990)	\$ (499,884)
Net loss applicable to ordinary shares.....	\$ (490,192)	\$ (390,311)	\$ (646,990)	\$ (499,884)
Basic and diluted net loss per share	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
	<u>March 31, 2012</u>	<u>December 31, 2011</u>	<u>September 30, 2011</u>	<u>June 30, 2011</u>
Revenue	\$ 444,057	\$ 477,552	\$ 446,817	\$ 523,051
Operating (loss).....	\$ (615,569)	\$ (410,588)	\$ (777,046)	\$ (943,537)
EBITDA.....	\$ (360,302)	\$ (221,080)	\$ (466,018)	\$ (565,808)
Net income (loss)	\$ (613,819)	\$ 484,200	\$ 709,174	\$ (2,661,611)
Net income (loss) applicable to ordinary shares.....	\$ (613,819)	\$ 484,200	\$ 709,174	\$ (2,661,611)
Basic net income (loss) per share applicable to ordinary shares.....	\$ (0.01)	\$ 0.00	\$ 0.01	\$ (0.03)
Diluted net income (loss) per share applicable to ordinary shares.....	\$ (0.01)	\$ 0.00	\$ 0.00	\$ (0.03)

The above quarterly information has been prepared by management in accordance with IFRS.

Revenues generally decreased throughout the quarters, as the revenues associated with our Consumer Marketing Channel continued to decline and were only partially offset by an increase in revenue generated from customers through our Employee Benefit, Tech Support and Anti-Virus Channels.

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Our net income (loss) changed significantly from quarter to quarter primary due to the recognition of gain (loss) on warrant liabilities and to a lesser extent from generally declining gross margin due to lower levels of revenues.

Results of Operations

Revenues

Revenue increased \$110,431, or 24.9%, from \$444,057 for the first quarter of 2012 to \$554,488 for the first quarter of 2013. On February 12, 2013, the Company entered into a services agreement with iSekurity, Inc ("iSekurity"), to provide billing, customer support and identity theft protection and resolution services to iSekurity's customers. During the first quarter of 2013, the Company recognized \$71,257 of revenues relating to this services agreement, which accounted for 16.1% of the 24.9% increase in revenues. Revenue from our Employee Benefits, Tech Support and Anti-virus channels, contributed \$39,174 to the total increase in revenues, driven by a 33.6% increase in customers from these channels. Our average revenue per customer decreased by 18.6% during the first quarter of 2013, as compared to the first quarter of 2012, as the rates paid by our new customers are generally lower as compared to the rates paid by our customer base during the first quarter of 2012.

While the new customers from our Employee Benefit, Tech Support and Anti-virus channels generate a lower net revenue per customer as compared to the rates we receive from our Consumer Marketing Channel, these new customers are acquired at a much lower cost per customer and we believe they will also subscribe to our services for longer periods as compared to the Consumer Marketing Channel customers.

Cost of Revenue

Cost of revenue consists primarily of the following:

- Fees paid to a credit bureau and for other data providers;
- Cost of personnel and other related costs incurred for customer identity monitoring and resolution; and
- Costs for credit card processing.

Cost of revenue for the first quarter of 2013 was \$148,253, resulting in a gross profit of \$406,235, while our cost of revenue for the first quarter of 2012, was \$286,010, resulting in a gross profit of \$158,047. The gross margin for the first quarter of 2013 was 73.3% as compared to a gross margin of 35.6% for the first quarter of 2012.

The decrease in cost of revenue is primarily the result of a \$84,957 decrease data services expenses and a \$48,231 decrease in personnel related expenses to provide our identity theft protection services. The Company entered in to a new data agreement, which was effective January 1, 2013, and significantly reduced the minimum monthly fee the Company is required to pay for these services, as compared to the minimum fee in the prior data agreement with this provider. The reduced fees paid to this provider generated substantially all of the data cost savings described above.

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General and Administrative Expense

General and administrative expense consists primarily of the following:

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

General and administrative expense decreased \$30,283, or 7.1%, from \$426,272 during the first quarter of 2012 to \$395,989 during the first quarter of 2013. This decrease was primarily the result \$32,334 of annual meeting related expenses incurred in the first quarter of 2012, for which no similar expenses were incurred in the first quarter of 2013.

Marketing Expense

Marketing expense consists primarily of the following:

- Salaries, commissions and benefits of sales and marketing personnel;
- Benefit brokers' commissions;
- Marketing and promotional materials;
- Public relations expenses; and
- Other marketing expenses

Sales and Marketing expense for the first quarter of 2013 totaled \$127,378 as compared to \$92,077 during the similar period in 2012, an increase of \$35,301, or 38.3%. This increase was primarily the result of a \$37,845 increase in salaries, commissions and benefits expense resulting from the addition of sales and account management personnel.

EBITDA

EBITDA improved by \$256,255 to \$(104,047) during the three months ended March 31, 2013, as compared with \$(360,302) for the similar period in 2012. The improvement in EBITDA is due to \$248,188 improvement in gross margin as described above and a \$8,067 decrease in total operating expenses (excluding depreciation and amortization and stock-based compensation).

Stock-based Compensation

Stock-based compensation expense for the first quarter of 2013 totaled \$57,400 as compared to \$231,333 for the similar period in 2012, a decrease of \$173,933, or 75.2%.

Stock compensation expense will vary from quarter to quarter based on the number and timing of stock option grants, the fair value of the stock options granted and the vesting terms of the stock option grants, among other factors. No stock options were granted during the first quarter of 2013 as compared to 4,072,000 options, which were granted in the first quarter of 2012, with an exercise price of between \$0.10 and \$0.27 per stock option and with a weighted average grant date fair value of \$.02 per stock option.

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Interest Expense

	For the three Months Ended March 31,	
	2013	2012
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 finance leases and debt	8,471	3,596
Total Interest Expense	\$ 186,297	\$ 186,892

Gain (Loss) on Warrant Liabilities

Certain of our warrants contain anti-dilution provisions, which if triggered by the issuance by the Company of equity securities below certain levels as outlined in the individual warrant agreements, would result in a reduction of the exercise price of the warrants. We have recorded these warrants as warrant liability at fair value in the accompanying consolidated statements of financial position. Each period, we adjust the estimated fair value of these warrants through a charge or credit to earnings until such time as the instruments are exercised, expire or are permitted to be classified in shareholders’ equity. During the three months ended March 31, 2013 and 2012, we recognized a non-cash gain (loss) from the change in the fair value of these warrants of (\$120,648) and \$185,203, respectively. These gains (losses) are the result of decreases (increases) in the fair value of these warrants driven primarily by changes in the share price of the Company’s Ordinary Shares, the remaining term of the warrants and other factors.

Liquidity and Capital Resources

Recapitalization of the Company and Issuance of Series C Convertible Preferred Shares

The Company has incurred significant losses from operations and has funded these losses primarily through funds raised in its 2008 Initial Public Offering (“IPO”) and from private placements of debt and equity securities.

On November 8, 2011, the Company closed a private placement offering of units (the “Units”). The Company sold 8,333,333 Units at a price of \$0.24 per Unit for aggregate gross proceeds of U.S. \$2,000,000 (the “Units Offering”). Net proceeds from the Units Offering were \$1,808,646. Each Unit consists of two Ordinary Shares in the capital of the Company 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 at any time prior to 5:00 p.m. on November 8, 2016. The second Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S. \$0.25 at any time prior to 5:00 p.m. on November 8, 2016.

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The net proceeds from the Units Offering will be used to fund operating deficits, to hire and compensate additional personnel and for general working capital purposes. Below is a summary of the net proceeds and the actual use of net proceeds from the Units Offering.

Proceeds from Offering

Gross Proceeds from Units Offering	\$2,000,000
Less: Offering Costs	<u>(191,354)</u>
Net Proceeds from Units Offering	<u>\$1,808,646</u>

Use of Proceeds from Offering

Operating Deficit for the period November 8, 2011 to March 31, 2013 (1)	\$1,328,449
Expense for additional personnel for the period November 8, 2011 to March 31, 2013	<u>220,150</u>
Total Actual Use of Proceeds	<u>\$1,548,599</u>
Net Proceeds of Units Offering available to fund future operating deficits, compensation for additional personnel and for general working capital purposes	<u>\$ 260,047</u>

'(1) Operating deficit is the operating loss plus depreciation and amortization and stock based compensation and expense for additional personnel.

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Liquidity

	<i>As of March 31,</i>	
	2013	2012
Current Assets		
Cash	\$ 461,983	\$ 319,073
Accounts Receivable	182,676	144,561
Prepaid Expenses	77,118	73,466
	721,777	537,100
Current Liabilities		
Accounts payable and accrued liabilities	\$ 512,689	\$ 521,134
Deferred Revenue	346,060	267,056
Current portion of long-term debt	13,108	13,574
	871,857	801,764
 Net Working Capital	<u>\$ (150,080)</u>	<u>\$ (264,664)</u>

As of March 31, 2013, cash and cash equivalents totalled \$461,983 compared to \$319,073 as of December 31, 2012. Net working capital at March 31, 2013 was \$(150,080) with a current ratio of .83, compared to \$(264,664) at December 31, 2012, with a current ratio of .67, or an increase of \$114,584 of net working capital. The working capital provided during the three months ended March 31, 2012, was used primarily to fund operating cash flow deficits.

During the three month periods ended March 31, 2013 and 2012, we had cash outflows from operations of \$(83,519) and \$(325,337), respectively. The decrease in cash used in operating activities, when comparing the two periods, was primarily the result of a decrease in operating losses and a net increase in deferred revenues of \$65,825.

During the three month periods ended March 31, 2013 and 2012, cash flows provided by investing activities totalled \$0 and \$242,479, respectively. Cash flows provided by investing activities in 2012, were primarily the result of the sale of \$245,000 of available-for-sale securities.

Cash flows provided by (used in) financing activities totalled \$226,429 and \$(4,957), respectively for the three month periods ended March 31, 2012 and 2011, respectively, and are as follows:

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	Year Ended December 31,	
	2012	2011
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 finance lease obligations	(3,820)	(4,186)
Net cash provided by (used in) financing activities	<u>\$ 226,429</u>	<u>\$ (4,957)</u>

Commitments

On November 19, 2012, the Company entered into a new two year agreement with a data provider, 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 terminate all other data agreements the company had with this data provider 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 the last nine months of 2013 and calendar 2014 are \$58,542 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 the last nine months of 2013 and calendar 2014 are \$22,212 and \$24,685 respectively.

Capital Resources

The Company will seek to grow its customer base primarily through the Employee Benefits Channel, through the Tech Support Channel and through the Anti-Virus Channel. The Company continues to make progress in building its Employee Benefit Channel by expanding its network of employee benefit brokers who market our services to their employer clients for inclusion in the clients' employee benefit plans as a voluntary employee benefit.

The Company has partnered with certain anti-virus and other desktop software providers to provide our identity theft protection services as a complimentary add-on product offering directly to the partners' end-users through their customers' desktops. 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

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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 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.

ID Rehab is required to pay the Lender certain additional fees if ID Rehab does not achieve certain financial targets in 2014 and 2015. 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.

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Outstanding Share Data

We are authorized to issue up to 450,000,000 Ordinary Shares and up to 450,000,000 preferred shares. As of May 28, 2013, we have the following equity securities outstanding:

Ordinary Shares

- 119,834,997 Ordinary Shares outstanding;
- 54,337,090 warrants, each of which is exercisable for one Ordinary Share at prices ranging from \$0.03 to \$0.48;
- 13,277,000 stock options, each of which is exercisable for one Ordinary Share at prices ranging from \$0.10 to \$0.60 per share; and
- 900,000 stock options, each of which is exercisable for one ordinary share at CDN\$0.60 per Ordinary Share.

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

Certain of the warrant agreements contain anti-dilution provisions that require a reduction in the exercise price of the warrant in the event the Company issues or sells its Ordinary Shares for an effective price that is less than the then existing exercise price of the warrant. These anti-dilution provisions in certain of our warrant agreements have been triggered at various times from the issuance of Ordinary Shares which has caused a reduction in the exercise price of certain of the warrants.

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

Series C Preferred Stock

On February 24, 2011 the Company issued 3,123,481 shares of its Series C Preferred. In June 2012, 50 shares of the Series C Preferred were converted to Ordinary Shares. As of March 31, 2013, the Company had outstanding 3,073,481 shares of its Series C Preferred. 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 30,734,810 Ordinary Shares. The Company has reserved 30,734,810 of its Ordinary Shares to effect the conversion of Series C Preferred. The Series C Preferred is considered to be mandatory redeemable shares and is classified as a liability on the Company's consolidated statement of financial position as of March 31, 2013 and December 31, 2012.

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

In the event the Company issues or sells its Ordinary Shares for an effective price (the "New Issuance Price") that is less than the then existing conversion price of the Series C Preferred in

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effect immediately prior to such issue or sale, then immediately after such issuance the conversion price then in effect shall be reduced to the New Issuance Price, but not less than \$.15 per Ordinary Share.

Off-balance Sheet Arrangements

Other than the office lease commitment described in Note 12 of the Company's December 31, 2012 audited consolidated financial statements and under the "Commitments " section above, the Company did not have any off-balance sheet arrangements as of March 31, 2013 or December 31, 2012.

Transactions with Related Parties

None.

Contingencies

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

Recent Accounting Pronouncements

The IASB has issued a number of new and revised Internal Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2013. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these consolidated financial statements, the IASB and IFRIC have issued the following new and revised Standards and Interpretations:

IFRS 9 Financial Instruments

IFRS 9 addresses the classification and measurement of financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, however is available for early adoption. The Company has not early adopted this standard and has not fully assessed the impact of adopting IFRS 9.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes principles for the presentation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The standard has been adopted and the standard did not have an impact on the financial statements.

IFRS 11 Joint Arrangements

IFRS 11 provides for the accounting of joint ventures by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminated the option to account for jointly controlled entities using the

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proportionate consolidation method. The standard is effective for annual periods beginning on or after January 1, 2013. The Company has not adopted this standard as the standard is not applicable to the Company as this time.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 provides the disclosure requirements for interest held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is effective for annual period beginning on or after January 1, 2013. The Company has not adopted this standard as the standard is not applicable to the Company as this time.

IFRS 13 Fair Value Measurement

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 standard has been adopted and its adoption has not had any impact on the disclosures in these financial statements.

IAS 27 Separate Financial Statements

IAS 27 prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when the entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9, Financial Instruments. IAS 27 is effective for annual periods beginning on or after January 1, 2013. The Company has not adopted this standard as the standard is not applicable to the Company as this time.

IAS 28 Investments in Associates and Joint Ventures

IAS 28, revised the existing standard and prescribes the accounting for investments in associates and joint ventures and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. The Company has not adopted this standard as the standard is not applicable to the Company as this time.

IAS 32 and IFRS 7 Offsetting Financial Assets and Financial Liabilities

In December 2011, the IASB published Offsetting financial Assets and Financial Liabilities and issued new disclosure requirements in IFRS 7 Financial Instruments: Disclosures. The amendments to IAS 32 provide specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists, and when an entity meets the criterion for the intent to settle on a net basis. The effective date for the amendments to IAS 32 is for annual period beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is for annual periods beginning after January 1, 2013. These amendments are to be applied retrospectively. The Company has not adopted this standard as the standard is not applicable to the Company as this time.

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Financial Instruments and Other Instruments

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

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

Forward-looking Information and Statements

Certain statements contained in this report constitute forward looking information within the meaning of securities laws. Implicit in this information, particularly in respect of the Company's future operating results and economic performance are assumptions regarding projected revenues and expenses. These assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that the Company's actual future operating results and economic performance are subject to a number of risks and uncertainties, including general economic, market and business conditions, and could differ materially from what is currently expected. Forward-looking information contained in this report is based on management's current estimates, expectations and projections, which management believes are reasonable as of the current date. The reader should not place undue reliance on forward-looking statements and should not rely upon this information as of any other date. In addition to presenting an analysis of results for the three month periods ended March 31, 2013 and 2012, this report also discusses certain important events that occurred between the end of the period and May 28, 2013.

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

- Efforts to upgrade users from "free alerts" to a premium identity theft protection product--See Marketing of Services;
- Efforts to establish distribution relationships with companies that provide personal computer performance enhancement services in order to generate additional sales-- See Marketing of Services;

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- Efforts and plans to expand its employee benefits distribution channel, the number of benefits brokers and our customer base-- See Marketing of Services;
- Position that it is unable to provide assurance that it will be successful in generating any significant revenue from its Anti-Virus Channel--See Capital Resources;
- Belief that it will achieve positive operating income, before depreciation, amortization and stock-based compensation, beginning in the second half of 2013 and meaningful sequential revenue growth through the balance of 2013--See Capital Resources;
- Ability to further reduce our cost structure in order to achieve positive operating income, before depreciation, amortization and stock-based compensation; and
- Ability to achieve the required financial targets in order to borrow additional funds under our Credit Facility --See Capital Resources.

Material Risk Factor and Assumptions

The following table outlines material forward-looking information included in the MD&A:

<u>Forward-looking Information</u>	<u>Key Assumptions</u>	<u>Most Relevant Risk Factors</u>
Certain beliefs surrounding the future revenue generating potential of the Anti-Virus Channel.	Significant uncertainty surrounding the number of paying customers the Company may be able to attract through the Anti-Virus Channel.	The Company may not be successful in generating a meaningful number of paying customers due to product pricing or other offering terms, ineffective or insufficient marketing support and a lack of customer education about our products. We may not have our product exposed to a sufficient number of potential customers through our existing desktop software partners to enable us to generate a meaningful number of paying customers. In addition, the Company may not be able to enter into agreements with any additional desktop software providers. Also, see the following two risk factors.
Our efforts to upgrade users from “free alerts” to a premium identity theft protection product	A meaningful percentage of registered users who receive free alerts over the long-term will likely upgrade to a premium identity theft protection product.	Registered user may not be compelled to purchase a premium identity theft protection product from receiving “free alerts”.
Meaningful Sequential revenue growth through the balance of 2013.	Our relationships with tech support companies and Benefits Brokers are new and evolving, the Company has limited experience with these entities and a significant portion of the Benefits Brokers business is generated in early in each calendar year.	The Benefits Broker’s the Company has engaged to promote its product offering to employers are not successful in convincing employers to include our product offering in their employee benefits offerings and an insufficient number of employees chose to purchase our products.
The belief that the Company will achieve positive operating income beginning in the second half of 2013.	The Company will be successful in generating significant incremental revenue and/or further reducing costs in the near-term to achieve positive operating income beginning in the second half of 2013.	Ability to generate sufficient incremental revenue (see above risk factor) and/or further reduce costs in the near-term.

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<p>Belief that the Company will be able to achieve certain financial targets in order to draw additional funds on its Credit Facility.</p>	<p>The Company will be successful in generating incremental revenue in the first half of 2013, in order to meet the financial targets.</p>	<p>Ability to generate sufficient incremental revenue (see above risk factor) and/or further reduce costs in the first half of 2013.</p>
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