

ID Watchdog, Inc.
Management's Discussion and Analysis
For the Three and Six Months Ended June 30, 2014

Introduction

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of ID Watchdog, Inc.'s (the "Company's" or the "Company") consolidated results of operations and financial position. This "Management's Discussion and Analysis" ("MD&A") should be read in conjunction with the unaudited consolidated interim condensed financial statements of the Company for the three and six months ended June 30, 2014 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, 2013, 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 on page 17 of this MD&A.

International Financial Reporting Standards ("IFRS")

The Company's unaudited consolidated interim condensed financial statements and the financial information included in this MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective as of August 4, 2014.

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

Definitions Relative to Understanding our Results

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

We report on our EBITDA 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 pages 9, 10 and 11 of this MD&A.

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Background and Description of Business

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

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

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Marketing of Services

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

- **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 ("Benefit Brokers" or "Benefit Broker"). In this channel, our Benefit Broker partners promote our services to their employer clients who then offer our services as a voluntary 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.
- **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 to consumer advertising, telemarketing and on-line affiliate marketing programs to sell its services (the "Consumer Marketing Channel"). While the Company no longer utilized these strategies to sell its services, we still provide services to a significant number of subscribers that were sold through the Consumer Marketing Channel.

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Balance Sheet Data

	As of June 30, 2014	As of December 31, 2013
	(Unaudited)	(Audited)
Cash and cash equivalents	\$ 868,412	\$ 552,694
Total assets	1,164,850	932,265
Total long term liabilities	5,058,832	4,813,103
Total liabilities	6,469,594	5,987,670
Total shareholders' deficit	(5,304,744)	(5,055,405)

Results of Operations

The financial information set out below is based on and derived from our unaudited consolidated interim condensed statements of operations for the three and six month period ended June 30, 2014 and 2013.

	For the Three Months Ended June 30,	
	2014	2013
	(Unaudited)	(Unaudited)
Revenue	\$ 842,320	\$ 528,196
Cost of services	253,562	247,022
Gross profit	588,758	281,174
Operating expense	523,966	488,845
Operating income (loss)	64,792	(207,671)
EBITDA.....	115,087	(141,238)
Net loss and comprehensive loss applicable to ordinary shares	\$ (308,213)	\$ (385,278)
Basic and diluted net loss per share.....	\$ (0.00)	\$ (0.00)

	For the Six Months Ended June 30,	
	2014	2013
	(Unaudited)	(Unaudited)
Revenue	\$ 1,632,947	\$ 1,082,684
Cost of services	502,392	439,968
Gross profit	1,130,555	642,716
Operating expense	1,085,029	1,033,638
Operating income (loss)	45,526	(390,922)
EBITDA.....	173,830	(245,285)
Net loss and comprehensive loss applicable to ordinary shares	\$ (344,277)	\$ (875,470)
Basic and diluted net loss per share.....	\$ (0.00)	\$ (0.01)

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Summary of Quarterly Results

	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013
Revenue	\$ 842,320	\$ 790,627	\$ 678,911	\$ 596,680
Cost of revenue.....	253,562	248,830	222,778	241,431
Gross profit.....	<u>588,758</u>	<u>541,797</u>	<u>456,133</u>	<u>355,249</u>
Operating expense:				
General and administrative.....	300,236	340,857	267,512	275,019
Sales and marketing.....	173,435	142,197	173,270	163,984
Stock-based compensation.....	35,159	59,779	246,315	29,166
Depreciation and amortization....	15,136	18,230	17,182	23,479
	<u>523,966</u>	<u>561,063</u>	<u>704,279</u>	<u>491,648</u>
Operating income (loss).....	64,792	(19,266)	(248,146)	(136,399)
Other income (expense).....	(373,005)	(16,798)	(830,594)	(183,744)
Net loss and comprehensive loss applicable to ordinary shares....	<u>\$ (308,213)</u>	<u>\$ (36,064)</u>	<u>\$ (1,078,740)</u>	<u>\$ (320,143)</u>
Basic and diluted net loss per share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>

Reconciliation of Net Loss and Comprehensive Loss to EBITDA

Net loss.....	\$ (308,213)	\$ (36,064)	\$ (1,078,740)	\$ (320,143)
Stock-based compensation expense.....	35,159	59,779	246,315	29,166
Depreciation and amortization expense.....	15,136	18,230	17,182	23,479
Loss (gain) on warrant liability.....	159,727	(199,658)	618,942	(19,966)
Interest expense, net.....	<u>213,278</u>	<u>216,456</u>	<u>211,651</u>	<u>203,710</u>
EBITDA.....	<u>\$ 115,087</u>	<u>\$ 58,743</u>	<u>\$ 15,350</u>	<u>\$ (83,754)</u>

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Summary of Quarterly Results

	June 30, 2013	March 31, 2013	December 31, 2012	September 30, 2012
Revenue	\$ 528,196	\$ 554,488	\$ 460,093	\$ 434,052
Cost of revenue.....	247,022	192,946	272,547	261,583
Gross profit.....	281,174	361,542	187,546	172,469
Operating expense:				
General and administrative.....	306,618	338,211	301,657	322,952
Sales and marketing	115,794	127,378	136,382	189,982
Stock-based compensation.....	43,655	57,400	74,075	103,725
Depreciation and amortization....	22,778	21,804	21,814	21,937
	488,845	544,793	533,928	638,596
Operating income (loss).....	(207,671)	(183,251)	(346,382)	(466,127)
Other income (expense).....	(177,607)	(306,941)	(43,929)	(180,863)
Net loss and comprehensive loss applicable to ordinary shares...	<u>\$ (385,278)</u>	<u>\$ (490,192)</u>	<u>\$ (390,311)</u>	<u>\$ (646,990)</u>
Basic and diluted net loss per share	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>

Reconciliation of Net Loss and Comprehensive Loss to EBITDA

Net loss.....	\$ (385,278)	\$ (490,192)	\$ (390,311)	\$ (646,990)
Stock-based compensation expense.....	43,655	57,400	74,075	103,725
Depreciation and amortization expense.....	22,778	21,804	21,814	21,937
Loss (gain) on warrant liability.....	(20,819)	120,648	(140,614)	(3,639)
Interest expense, net.....	198,426	186,293	184,543	184,502
EBITDA	<u>\$ (141,238)</u>	<u>\$ (104,047)</u>	<u>\$ (250,493)</u>	<u>\$ (340,465)</u>

The above quarterly information has been prepared by management in accordance with IFRS, except for EBITDA (see Definitions Relative to Understanding our Results).

Revenues increased consistently beginning in the fourth quarter of 2012 (except for a modest sequential decline in the second quarter of 2013) as a result of the addition of the iSecurity customers as well as increased revenue from our Employee Benefit and Tech Support Channels.

General and administrative expense increased sequentially in the first quarter of each year as we incur substantially all of our annual independent audit fees in the first quarter.

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

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

Results of Operations

Revenues

Revenue increased \$314,124, or 59.5%, from \$528,196 for the second quarter of 2013 to \$842,320 for the second quarter of 2014. During the second quarter of 2014, revenue from our Employee Benefits and Tech Support Channels, increased by 85.0% and contributed \$283,092 to the total increase in revenues, while revenues from our iSecurity customers and our anti-virus customers contributed \$60,066 and \$16,783, respectively, to the total increase in revenues. These increases were partially offset by a \$45,817 decrease in revenues from our Consumer Marketing Channel.

Revenue increased \$550,263, or 50.8%, from \$1,082,684 for the six month period ended June 30, 2013, to \$1,632,947 for the six month period ended June 30, 2014. During the first half of 2014, revenue from our Employee Benefits and Tech Support Channels, increased by 77.4% and contributed \$512,825 to the total increase in revenues, while revenues from our iSecurity customers and our anti-virus customers contributed \$81,189 and \$41,754, respectively, to the total increase in revenues. These increases were partially offset by an \$85,505 decrease in revenues from our Consumer Marketing Channel.

Cost of Revenue

Cost of revenue consists primarily of the following:

- Fees paid to a credit bureau and for other data providers;
- Wages and benefits of personnel, facilities costs and other costs incurred for customer identity monitoring and resolution; and
- Costs for merchant credit card processing fee.

Cost of revenue for the second quarter of 2014 was \$253,562, resulting in a gross profit of \$588,758, while our cost of revenue for the second quarter of 2013, was \$247,022, resulting in a gross profit of \$281,174. The gross margin for the second quarter of 2014 was 69.9% as compared to a gross margin of 53.2% for the second quarter of 2013.

Cost of revenue for the six month period ended June 30, 2014 was \$502,392, resulting in a gross profit of \$1,130,555, while our cost of revenue for the six month period ended June 30,

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2013, was \$439,968, resulting in a gross profit of \$642,716. The gross margin for the six month period ended June 30, 2014 was 69.2% as compared to a gross margin of 59.4% for the six month period ended June 30, 2013.

Our gross margins for the three and six month periods ended June 30, 2014 as compared to the similar periods in the prior year, increase by 1,666 basis points and 987 basis points, respectively. The improvement in our gross margins was due primarily to lower per customer costs resulting from the utilization of less costly data providers beginning in late 2013.

We have reclassified certain expenses from general and administrative expense to cost of revenue in prior period financial statements to conform to the current period's presentation.

General and Administrative Expense

General and administrative expense consists primarily of the following:

- Wages and benefits of personnel (excluding sales and marketing personnel 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 \$6,382, or 2.1%, from \$306,618 during the second quarter of 2013 to \$300,236 during the second quarter of 2014. The decrease is the results of a \$29,354 decrease in expenses incurred to manage the iSekurity customers under the services agreement with iSekurity, which were partially offset by increased personnel costs and increased travel costs to support an increasing customer base.

General and administrative expense decreased \$3,736, or 0.6%, from \$644,829 during the six months period ended June 30, 2013 to \$641,093 for the six month period ended June 30, 2014. The decrease is the results of an \$84,493 decrease in expenses incurred to manage the iSekurity customers under the services agreement with iSekurity, which were partially offset by an increase of \$63,168 in professional services expenses and \$19,702 increase in travel related expenses.

We have reclassified certain expenses from general and administrative expense to cost of revenue in prior period financial statements to conform to the current period's presentation.

Sales and Marketing Expense

Sales and Marketing expense consists primarily of the following:

- Sales commissions to brokers and other third parties;
- Wages, commissions and benefits of sales and account management personnel;
- Trade shows, marketing and promotional materials;

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- Travel and entertainment expenses; and
- Other marketing expenses

Sales and marketing expense for the second quarter of 2014 totalled \$173,435 as compared to \$115,794 for the similar period in 2013, an increase of \$57,641, or 49.8%. This increase was primarily the result of a \$22,270 increase in third party sales commission expense driven by a significant increase in sales and a \$23,894 increase in trade shows and other marketing expense.

Sales and marketing expense for the six month period ended June 30, 2014 totalled \$315,632 as compared to \$243,172 for the similar period in 2013, an increase of \$72,460, or 29.8%. This increase was primarily the result of a \$53,537 increase in third party sales commission expense driven by a significant increase in sales and a \$24,434 increase in trade shows and other marketing expenses.

EBITDA

For the second quarter of 2014, EBITDA improved by \$256,325 to \$115,087 as compared with \$(141,238) for the similar period in 2013. The improvement in EBITDA is due primarily to the \$307,584 improvement in gross margin as described above, which was partially offset by increased in sales and marketing expenses.

For the six month period ended June 30, 2014, EBITDA improved by \$419,115 to \$173,830 as compared with \$(245,285) for the similar period in 2013. The improvement in EBITDA is due primarily to the \$487,839 improvement in gross margin as described above, which was partially offset by increased in sales and marketing expenses.

Stock-based Compensation

Stock-based compensation expense for the second quarter of 2014 totalled \$35,159 as compared to \$43,655 for the similar period in 2013, a decrease of \$8,496, or 19.5%. Stock-based compensation expense for the six month period ended June 30, 2014 totalled \$94,938 as compared to \$101,055 for the similar period in 2013, a decrease of \$6,117, or 6.1%.

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

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reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision in the consolidated statement of operations with a corresponding adjustment to share capital.

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.

Interest Expense

Interest expense for the three and six month periods ended June 30, 2014 and 2013 consisted of the following:

	For the Three Months Ended June 30,	
	2014	2013
Accrued dividends on Series C Preferred.....	\$ 61,470	\$ 61,302
Amortization of Series C Preferred liquidation preference.....	43,012	42,894
Amortization of fair value of Series C Preferred detachable warrants	47,087	46,957
Amortization of offering costs.....	28,727	28,648
Interest expense on capitalized leases and debt, net....	16,882	10,829
Amortization of deferred financing fees.....	16,100	7,796
Total.....	\$ 213,278	\$ 198,426

	For the Six Months Ended June 30,	
	2014	2013
Accrued dividends on Series C Preferred.....	\$ 122,940	\$ 121,929
Amortization of Series C Preferred liquidation preference.....	86,024	85,317
Amortization of fair value of Series C Preferred detachable warrants	94,174	93,399
Amortization of offering costs.....	57,454	56,982
Interest expense on capitalized leases and debt, net....	35,285	18,073
Amortization of deferred financing fees.....	33,857	9,019
Total.....	\$ 429,734	\$ 384,719

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 defined in the individual warrant

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agreement, may result in a reduction of the exercise price of the warrants. We have recorded these warrants as warrant liability at fair value in the accompanying consolidated statements of financial position. The warrant liability is measured at estimated fair value with subsequent changes in fair value recorded as a gain or loss in the consolidated statements of operations until such time as the warrants are exercised, expire or are permitted to be classified in shareholders' equity.

During the three months ended June 30, 2014 and 2013, we recognized a non-cash gain (loss) from the change in the fair value of these warrants of \$(159,727) and \$20,819, respectively. During the six month periods ended June 30, 2014 and 2013, we recognized a non-cash gain (loss) from the change in the fair value of these warrants of \$39,931 and \$(99,829), 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, shortening of the remaining terms of the warrants and other factors.

Liquidity and Capital Resources

	As of June 30, 2014	As of December 31, 2013
Current Assets		
Cash and cash equivalents	\$ 868,412	\$ 552,694
Accounts receivable	161,290	173,042
Prepaid expenses	49,147	97,177
	1,078,849	822,913
Current Liabilities		
Accounts payable and accrued liabilities	\$ 569,022	\$ 472,289
Deferred revenue	682,622	568,224
Current portion of long-term debt	159,118	134,054
	1,410,762	1,174,567
Net Working Capital	\$ (331,913)	\$ (351,654)

As of June 30, 2014, cash and cash equivalents totalled \$868,412 compared to \$552,694 as of December 31, 2013. Net working capital at June 30, 2014 was \$(331,913) compared to \$(351,654) at December 31, 2013, or an improvement of \$19,741 in net working capital.

For the six months ended June 30, 2014 and 2013, net cash provided by (used in) operating activities totalled \$405,072 and \$(12,656), respectively. The increase in cash provided by operating activities, when comparing the two periods, was primarily the result of a \$419,115 improvement in EBITDA.

For the six months ended June 30, 2014 and 2013, cash flows provided by (used in) investing activities totalled \$(10,015) and \$0, respectively. Cash flows used in investing activities in 2014 were for capital expenditures.

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Cash flows from financing activities totalled \$(79,339) and \$223,079 for the six months ended June 30, 2014 and 2013, respectively, and are as follows:

	Six Months Ended June 30,	
	2014	2013
Borrowing from (repayments on) Credit Facility.....	\$ (72,525)	\$ 250,000
Credit Facility fees	—	(19,751)
Repayment of finance lease obligations	(6,814)	(7,170)
Net cash provided by (used in) financing activities.....	\$ (79,339)	\$ 223,079

Commitments

On November 19, 2012, the Company entered into a two year agreement with a certain data provider, which was effective on January 1, 2013, requires the Company to pay a monthly fee based on the greater of actual data usage priced at contractual rates or \$10,000 per month.

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

For the three and six month periods ended June 30, 2014 and 2013, the Company recognized rent expense for this office lease of \$20,592, \$40,071, \$20,422 and \$39,370, respectively, which is reflected in operating expenses in the accompanying statement of operations.

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

Capital Resources

The Company will seek to grow its customer base primarily through the Employee Benefits and Tech Support Channels. 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.

As of June 30, 2014 our cash balances totalled \$868,412, and we had no additional borrowing capacity under our Credit Facility (see Note 6 to the consolidated interim condensed financial statements). We are dependent upon our existing cash balances, along with our cash flow

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generated from gross profits, and additional debt or equity financing, if available, to fund our operating activities, debt service, expansion plans and other working capital needs.

Based on our current forecast of revenue growth, the Company anticipates that it will generate positive EBITDA for the year ended December 31, 2014. The Company generated EBITDA of \$115,087 and \$173,830 for the three and six month periods ended June 30, 2014, respectively. Given the Company's existing cash balances and forecast of positive EBITDA for 2014, the Company believes it will have sufficient liquidity to fund its operating activities and working capital needs for at least twelve months from June 30, 2014.

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 June 30, 2014, we have the following equity securities outstanding:

Ordinary Shares

- 121,834,997 Ordinary Shares outstanding;
- 53,210,841 warrants, each of which is exercisable for one Ordinary Share at prices ranging from \$0.10 to \$0.29; and
- 13,603,000 stock options, each of which is exercisable for one Ordinary Share at prices ranging from \$0.10 to \$0.56 per share.

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

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

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

Series C Preferred Stock

On February 24, 2011 the Company issued 3,123,481 shares of its Series C Preferred. In June 2012, 50 shares of the Series C Preferred were converted to Ordinary Shares. As of June 30, 2014, 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

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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 June 30, 2014 and December 31, 2013.

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 effect immediately prior to such issue or sale, then immediately after such issuance the conversion price then in effect shall be reduced to the New Issuance Price, but not less than \$0.15 per Ordinary Share.

Off-balance Sheet Arrangements

Other than the office lease commitment described in Note 8 of the Company's June 30, 2014 consolidated interim condensed financial statements and under the "Commitments" section above, the Company did not have any off-balance sheet arrangements as of June 30, 2014 or December 31, 2013.

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.

Significant Accounting Judgement and Estimates

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

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

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

(1) Judgments

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

(i) Commitments and contingencies

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

(2) Use of Estimates

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

(i) Compound instruments

The Company estimated the fair value of the liability component of the Series C Preferred, including the related warrants, by discounting the redemption amount at a market rate for a similar liability that does not have an associated equity component. Warrants were issued with the Series C Preferred and their fair value was estimated using the Black Scholes options pricing model. Further, as the Series C Preferred is convertible, a portion of the proceeds were allocated to the conversion feature embedded in the Series C Preferred. Also, see Note 7 (a) of the unaudited consolidated interim condensed financial statements.

(ii) Warrants and options

The Company uses the Black-Scholes option pricing model to value its warrants and stock options. The Black-Scholes model requires the use of a number of assumptions, including expected share price volatility, risk-free interest rates, expected term and dividend rate. Prior to the Company's adoption of IFRS 13 on January 1, 2013, in certain cases, the Company also applied a discount to the quoted stock price in the Black-Scholes calculation.

The estimated expected share price volatility prior to January 1, 2014, was based on a combination of the Company's historical share price volatility and the expected volatility of a similar entity with publicly-traded securities. Beginning on January 1, 2014, the estimated expected share price volatility is based solely on the Company's historical share price volatility. The risk-free interest rate is based on the U.S. Treasury bill rate for the expected term of the related warrants and stock options. The

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expected term used for warrants is the contractual term of the warrant and the expected term for stock options represents the period of time that the stock options granted are expected to be outstanding. As the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero. In addition to the Black-Scholes model assumptions used in valuing stock options, the Company also estimates a forfeiture rate. The estimated forfeiture rate is based upon a combination of industry data and the Company's historical experience.

(iii) Property and equipment

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

(iv) Customer Agreements

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

(v) Accounts receivable and allowance for doubtful accounts

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

New Accounting Policies

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

IAS 36 Impairment of Assets (amended)

IAS 36 which modifies certain disclosure requirements about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The

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amendments apply retrospectively for annual period beginning on or after January 1, 2014. The Company adopted the amendments in its consolidated interim condensed financial statements for the annual period beginning on January 1, 2014. The adoption of this standard will impact the Company's disclosures in the notes to the consolidated interim condensed financial statements in periods where an impairment loss or impairment reversal is recorded.

Various Amendments

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

Future Accounting Pronouncements

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

IFRS 9 Financial Instruments

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets and liabilities. The IASB has established a tentative adoption date of January 1, 2018 for this IFRS. The Company will be required to adopt IFRS 9 in the future and has not fully assessed the impact of adopting IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a comprehensive new standard on revenue recognition. It specifies how and when to recognize revenue as well as requiring entities to provide more information and relevant disclosure. The new standard is effective for years beginning on or after January 1, 2017. The Company has not fully assessed the impact of adopting IFRS 15.

Financial Instruments and Other Instruments

On February 24, 2011, the Company issued 3,123,481 shares of its Series C Preferred and five-year warrants to purchase 15,617,405 of its Ordinary Shares at an exercise price of \$0.12 per share and received gross proceeds of \$3,123,481. In addition, the Company issued to the

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underwriters of this offering five-year warrants to purchase 4,348,481 of its Ordinary Shares at an exercise price of \$0.12 per share. The Series C Preferred is considered to be mandatory redeemable shares and is classified as a liability on the Company's statement of financial position.

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

Forward-looking Information and Statements

Certain statements contained in this report constitute forward looking information within the meaning of securities laws. Implicit in this information, particularly in respect of the Company's future operating results 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 and six month periods ended June 30, 2014 and 2013, this report also discusses certain important events that occurred between the end of the period and August 4, 2014.

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

- Efforts and plans to expand its employee benefits distribution channel, the number of benefits brokers and our customer base — See Marketing of Services;
- Belief that it will likely generate positive EBITDA for the year ended December 31, 2014 — See Capital Resources;
- Belief that it will have sufficient liquidity to fund its operating activities and working capital needs through June 30, 2015 — See Capital Resources.

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Business Risks

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

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

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

Ability to Retain Distribution Partners, Employers and Customers

We have derived a significant portion of our revenue from customers who subscribe to our consumer services through one of our distribution partners, including Benefit Brokers, benefit platforms, employers and tech support partners. Many of our key distribution relationships are governed by agreements that may be terminated without cause and without penalty and upon a short notice period. In order for us to grow our revenue, we must maintain and expand our relationships with these partners and enter into agreements with new partners. The loss of certain of these distribution partners may have a material adverse effect on our business, financial condition, and results of operation (see Note 12 to consolidated interim condensed financial statements).

Data Suppliers

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

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

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Ability to Manage Future Growth

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

Competition

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

Security of Confidential Information

Our services require us to collect, store, use, and transmit significant amounts of confidential information including personally identifiable information, credit card information, and other critical data. We employ a range of information technology solutions, controls, procedures, and processes designed to protect the confidentiality, integrity, and availability of our critical assets, including our data and information technology systems. While we engage in a number of measures aimed to protect against security breaches and to minimize problems if a data breach were to occur, our information technology systems and infrastructure may be vulnerable to damage, compromise, disruption, and shutdown due to attacks or breaches by hackers or due to other circumstances, such as employee error or malfeasance or technology malfunction. The occurrence of any of these events, as well as a failure to promptly remedy these events should they occur, could compromise our systems, and the information stored in our systems could be accessed, publicly disclosed, lost, stolen, or damaged. Any such circumstance could adversely affect our ability to attract and maintain customers as well as strategic partners, cause us to suffer negative publicity, and subject us to legal claims and liabilities or regulatory penalties.

Government Regulation

Our business and the information we use in our business is subject to a wide variety of federal, state, and local laws and regulations, including the FCRA, the Gramm-Leach-Bliley Act, the FTC Act and comparable state laws that are patterned after the FTC Act, and similar laws. We incur significant costs to operate our business and monitor our compliance with these laws and regulations. Any changes to the existing applicable laws or regulations, or any determination that other laws or regulations are applicable to us, could increase our costs or impede our ability to provide our services to our customers, which could have a material adverse effect on our business, operating results, financial condition,

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and prospects. In addition, any of these laws or regulations is subject to revision, and we cannot predict the impact of such changes on our business. Further, any determination that we have violated any of these laws and regulations may result in liability for fines, damages, or other penalties, which could have a material adverse effect on our business, operating results, financial condition, and prospects.

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

Credit, Liquidity and Market Risks

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

Credit Risk

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

(i) Trade and other receivables

The Company is exposed to credit risk from its customers. The Company does not perform credit checks on its customers in advance of providing service to the customers and therefore does not have specific knowledge regarding the credit quality of its customers. However, the Company provides its service to a significant number of customers, which minimizes concentration of credit risk, reviews its account receivable aging frequently and follows up on any accounts that are past due.

As of June 30, 2014, accounts receivable that are considered past due (over 30 days past due from the date of the invoice) totalled \$1,775, none of which the Company considered to be impaired. The accounts receivable, net of allowance at June 30, 2014 and December 31, 2013, was \$161,290 and \$173,042, respectively. For the six months ended June 30, 2014 and 2013, the Company recorded bad debt expense of \$372 and \$0, respectively.

(ii) Cash and Cash Equivalents

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

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Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account projected sales, receipts, expenditures and by the maturity of its various financial obligations. The Company currently finances its operations through internally generated cash flows and available cash balances. The following table is a summary of the Company's debt maturities as of June 30, 2014:

Obligation	Debt Maturity			
	July 1, 2014 to December 31, 2014	Year 2015	Year 2016	Total
Credit Facility.....	\$ 92,348	\$ 203,612	\$ 131,515	\$ 471,458
Finance leases.....	7,270	15,931	14,860	41,520
Series C Preferred.....	—	—	5,164,257	5,164,257
Total.....	<u>\$ 99,618</u>	<u>\$ 219,543</u>	<u>\$ 5,310,632</u>	<u>\$ 5,677,235</u>

Market Risk

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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