

ID Watchdog, Inc.
Management's Discussion and Analysis
For the Six Months Ended June 30, 2016

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") unaudited consolidated interim condensed 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 six months ended June 30, 2016 and the notes thereto. These unaudited consolidated interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in U.S. dollars as all of the Company's revenues and expenses are recorded in U.S. dollars. Additional information on the Company, including the Company's audited consolidated financial statements for the year ended December 31, 2015, can be accessed 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 25 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").

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

Definitions Relative to Understanding our Results

Earnings before net interest expense, income taxes, and depreciation and amortization expense ("EBITDA").

Earnings before net interest expense, income taxes, depreciation and amortization, share-based compensation, litigation provision, gain on disposition of assets and gain (loss) on warrant liability ("adjusted EBITDA").

We report on our adjusted EBITDA and use this metric to measure the performance of our business. Adjusted 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. Adjusted EBITDA does not have a standardized meaning and is therefore not likely to be comparable with similar measures used by other publicly traded companies. Adjusted EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, income taxes, interest payments, capital expenditures, debt principal reductions and other sources and uses of cash, which are disclosed later in 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 delivers 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. Identity theft is 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 related 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 online 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 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 further significant 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 have utilized various distribution channels to assist us in selling our identity theft protection services to potential customers. Our primary distribution channels are as follows:

- **Employee Benefit Channel:** We acquire these customers through relationships with benefit brokers and other entities ("Benefit Broker or Benefit Brokers") who focus on designing and negotiating customized employee benefit programs for their employer clients. In this channel, the Benefit Brokers promote our services to their employer clients who then offer our services as a voluntary benefit to their employees (the "Employee Benefit Channel"). We continue to expand this sales channel and ultimately our customer base by significantly expanding the number of Benefit Broker relationships and the depth and breadth of our relationships within these Benefit Brokers. We are focusing substantially all of our efforts on further development and expansion of the Employee Benefit Channel and anticipate that this channel will generate virtually all of our revenue growth in the foreseeable future.
- **Tech Support Channel:** In this channel, we utilize third-party entities who provide personal computer performance enhancement services (the "Sales Affiliates"), to sell our services as an add-on product offering directly to their customers (the "Tech Support Channel"). In conjunction with the Sales Affiliates, we also utilize a third-party vendor (the "Billing Vendor") to bill, process and collect payments from the customers who are sold their subscriptions to our services by the Sales Affiliates. The Billing Vendor receives a per transaction processing fee for providing their services. In addition, the Billing Vendor pays the Sales Affiliates a fee for each sale, as agreed upon by the Company and the Sales Affiliate, and remits the balance of the revenue to the Company.

The Company is not planning to engage any Sales Affiliates for this channel in the future and we do not expect add any new customer subscriptions in this channel for the foreseeable future, however, we do expect some of these existing customers to renew their current subscriptions upon expiration.

- **Consumer Marketing and Other Channels:** In the past, the Company utilized direct consumer advertising, telemarketing and online affiliate marketing programs to sell its services (the "Consumer Marketing Channel"). While the Company no longer utilizes these strategies to sell its services, a significant number of customers that were sold their subscriptions through the Consumer Marketing Channel have renewed their service subscriptions and remain as customers from this channel.

Also included in this category are customers which we acquired as part of a purchase of certain assets from a third-party identity theft protection company in May 2013 (the "Purchased Customers"), and customers the Company has acquired by partnering with anti-virus and other desktop software providers who provide our identity theft protection services as an add-on product offering to their end user customers.

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Balance Sheet Data

	June 30, 2016	December 31, 2015
	(Unaudited)	(Audited)
Cash and cash equivalents	\$ 2,246,527	\$ 1,069,289
Total assets	3,171,425	1,722,635
Total long term liabilities.....	2,788,785	5,404,919
Total liabilities	5,355,583	7,402,252
Total shareholders' deficit	(2,184,158)	(5,679,617)

Results of Operations

The financial information set out below is based on and derived from our consolidated interim condensed statements of operations for the three and six month periods ended June 30, 2016 and 2015.

	For the Three Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
Revenue	\$ 2,552,390	\$ 1,296,265
Cost of revenue	611,693	329,285
Gross profit.....	1,940,697	966,980
Operating expense	1,749,838	829,861
Operating income	190,859	137,119
Adjusted EBITDA.....	476,223	159,141
Net loss and comprehensive loss applicable to ordinary shares	\$ (55,084)	\$ (163,249)
Basic net loss per share	(0.00)	(0.00)
Diluted net loss per share...	(0.00)	(0.00)

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	For the Six Months Ended June 30	
	2016	2015
	(Unaudited)	(Unaudited)
Revenue	\$ 5,125,065	\$ 2,565,951
Cost of revenue	<u>1,296,028</u>	<u>676,934</u>
Gross profit	3,829,037	1,889,017
Operating expense	<u>3,348,811</u>	<u>1,614,115</u>
Operating income	<u>480,226</u>	<u>274,902</u>
Adjusted EBITDA.....	808,032	321,429
Net income (loss) and comprehensive income (loss) applicable to ordinary shares.....	\$ 349,159	\$ (58,313)
Basic net income (loss) per share.....	0.00	(0.00)
Diluted net income (loss) per share...	0.00	(0.00)

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The financial information set out below are derived from our quarterly consolidated statements of operations and have been prepared by management in accordance with IFRS, except for EBITDA and adjusted EBITDA (see Definitions Relative to Understanding our Results on page 1 of this MD&A).

Summary of Quarterly Results (Unaudited)

	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Revenue	\$ 2,552,390	\$ 2,572,675	\$ 1,424,021	\$ 1,377,583
Cost of revenue.....	611,693	684,335	442,335	377,296
Gross profit.....	1,940,697	1,888,340	981,686	1,000,287
Operating expense:				
General and administrative.....	512,222	596,399	375,947	333,187
Benefit broker commission.....	586,910	602,988	257,042	236,184
Sales and marketing.....	365,336	357,150	236,768	219,766
Share-based compensation.....	268,729	27,269	20,383	13,054
Depreciation and amortization....	16,641	15,167	13,042	12,049
	<u>1,749,838</u>	<u>1,598,973</u>	<u>903,182</u>	<u>814,240</u>
Operating income	190,859	289,367	78,504	186,047
Other income (expense).....	(245,943)	114,876	(623,407)	(296,197)
Net income (loss) and comprehensive income (loss) applicable to ordinary shares....	<u>\$ (55,084)</u>	<u>\$ 404,243</u>	<u>\$ (544,903)</u>	<u>\$ (110,150)</u>
Basic net income (loss) per share	<u>(0.00)</u>	<u>0.00</u>	<u>(0.00)</u>	<u>(0.00)</u>
Diluted net income (loss) per share.....	<u>(0.00)</u>	<u>0.00</u>	<u>(0.00)</u>	<u>(0.00)</u>

Reconciliation of Net Income (Loss) to Adjusted EBITDA

Net income (loss).....	\$ (55,084)	\$ 404,243	\$ (544,903)	\$ (110,150)
Depreciation and amortization expense.....	16,641	15,167	13,042	12,049
Interest expense, net.....	<u>103,529</u>	<u>163,025</u>	<u>202,516</u>	<u>202,495</u>
EBITDA.....	65,086	582,435	(329,345)	104,394
Loss (gain) on warrant liability.....	—	(317,709)	184,348	(66,298)
Litigation provision.....	142,414	39,808	237,543	160,000
Share-based compensation expense.....	268,729	27,269	20,383	13,054
Gain on disposition of assets.....	—	—	(1,000)	—
Adjusted EBITDA.....	<u>\$ 476,229</u>	<u>\$ 331,803</u>	<u>\$ 111,929</u>	<u>\$ 211,150</u>

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Summary of Quarterly Results (Unaudited)

	<u>June 30, 2015</u>	<u>March 31, 2015</u>	<u>December 31, 2014</u>	<u>September 30, 2014</u>
Revenue	\$ 1,296,265	\$ 1,269,686	\$ 948,836	\$ 887,685
Cost of revenue.....	329,285	347,649	254,706	231,938
Gross profit.....	966,980	922,037	694,130	655,747
Operating expense:				
General and administrative.....	377,673	331,226	268,340	356,122
Benefit broker commission.....	220,954	215,904	89,325	75,004
Sales and marketing	209,212	212,619	149,859	121,302
Share-based compensation.....	11,066	14,293	18,154	24,029
Depreciation and amortization....	10,956	10,212	11,513	14,597
	<u>829,861</u>	<u>784,254</u>	<u>537,191</u>	<u>591,054</u>
Operating income.....	137,119	137,783	156,939	64,693
Other income (expense).....	(300,368)	(32,847)	233,467	(289,884)
Net income (loss) and comprehensive income (loss) applicable to ordinary shares.....	<u>\$ (163,249)</u>	<u>\$ 104,936</u>	<u>\$ 390,406</u>	<u>\$ (225,191)</u>
Basic net income (loss) per share	<u>(0.00)</u>	<u>0.00</u>	<u>0.00</u>	<u>(0.00)</u>
Diluted net income (loss) per share	<u>(0.00)</u>	<u>0.00</u>	<u>0.00</u>	<u>(0.00)</u>

Reconciliation of Net Income (Loss) to Adjusted EBITDA

Net income (loss).....	\$ (163,249)	\$ 104,936	\$ 390,406	\$ (225,191)
Depreciation and amortization expense.....	10,956	10,212	11,513	14,597
Interest expense, net.....	<u>300,368</u>	<u>232,506</u>	<u>205,782</u>	<u>210,021</u>
EBITDA.....	148,075	347,654	607,701	(573)
Loss (gain) on warrant liability.....	—	(199,659)	(439,249)	79,863
Share-based compensation expense.....	<u>11,066</u>	<u>14,293</u>	<u>18,154</u>	<u>24,029</u>
Adjusted EBITDA.....	<u>\$ 159,141</u>	<u>\$ 162,288</u>	<u>\$ 186,606</u>	<u>\$ 103,319</u>

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Revenues have increased consistently from quarter to quarter due primarily to increased revenue from our Employee Benefit Channel. This slight decrease in revenue from the first quarter of 2016 to the second quarter was the result of a modest decrease in Tech Support Channel revenue.

General and administrative expense has fluctuated from quarter to quarter generally due to changes in professional services and travel related expenses. Also, general and administrative expense has increased in the first quarter of each year as we recognize a significant portion of our executive incentive compensation expense and incur substantially all of our annual independent audit fees in the first quarter.

Benefit Broker commission expense has increased consistently from quarter to quarter, with the exception of a slight decline from the first quarter of 2016 to the second quarter of 2016, as this expense is driven by increases in our Employee Benefit Channel revenue.

Sales and marketing expense has fluctuated from quarter to quarter generally due to the level of marketing activities during the particular quarter and from travel related expenses.

Adjusted EBITDA and operating income have generally improved quarter to quarter as we have benefited from increasing revenues, improving gross margins and operating leverage.

Our net income (loss) has changed significantly from quarter to quarter primary due to the recognition of gain (loss) on warrant liabilities, litigation provision and from increasing operating income.

Seasonality of Operations

The Company has utilized various distribution channels to assist us in selling its identity theft protection services to potential customers. We acquire these customers through relationships with Benefit Brokers who promote our services to their employer clients who then in-turn offer our services as a voluntary benefit to their employees. A significant number of employers make changes to the benefits offered to their employees, which are effective on January 1 of each year.

Due to the seasonal nature of the Employee Benefit Channel, the Company experiences significant revenue growth during first quarter of each year as compared to the fourth quarter of the prior year. The revenue during the balance of the calendar year will likely fluctuate modestly from the levels achieved in the first quarter. Cost of service, benefit broker commission expense and sales and marketing expense will also increase significantly in the first quarter of the year over the fourth quarter of the prior year as these expense are directly correlated to the growth in the Company's revenues. Further, as a result of these revenue and expense increases, the Company will experience higher levels of accounts receivable and accounts payable and accrued liabilities in the first quarter of each year as compared to the fourth quarter of the prior year.

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Results of Operations

Revenues

Revenue increased \$1,256,125, or 96.9%, from \$1,296,265 for the quarter ended June 30, 2015 to \$2,552,390 for the quarter ended June 30, 2016. Total revenue increased \$2,559,114, or 99.7%, from \$2,565,951 for the first six months of 2015 to \$5,125,065 for the first six months of 2016.

Revenue from our Employee Benefits Channel increased \$1,323,855, or 144.3%, from \$917,519 for the quarter ended June 30, 2015 to \$2,241,374 for the quarter ended June 30, 2016. The increase in our Employee Benefit Channel revenue from the second quarter of 2015 to second quarter of 2016 was the result of a 136.8% increase in the average monthly number of customers subscribing to our services and a 3.2% increase in the average monthly revenue generated per customer.

Revenue from our Employee Benefit Channel increased \$2,672,801, or 148.5%, from \$1,800,273 for the six-month period ended June 30, 2015 to \$4,473,074 for the six-month period ended June 30, 2016. The increase in our Employee Benefit Channel revenue from the first six months of 2015 to the first six months of 2016 was the result of a 138.7% increase in the monthly average number of customers subscribing to our services and a 4.1% increasing in the average monthly revenue per customer.

These increases in customers in 2016 over 2015, which are driven primarily from our January 1, 2016 enrollments, is the result of our continuing efforts to expand our network of Benefit Brokers who promote our services to their employer clients and to increase the number of employer clients represented by these Benefit Brokers.

Revenue from our Tech Support Channel decreased \$60,037, or 31.3%, from \$191,983 for the quarter ended June 30, 2015 to \$131,946 for the quarter ended June 30, 2016. Revenue from our Tech Support Channel decreased \$90,774, or 23.7%, from \$383,485 for the six months ended June 30, 2015 to \$292,711 for the six months ended June 30, 2016. The decrease in our Tech Support Channel revenue from the three and six month period ended June 30, 2015 as compared to the three and six months ended June 30, 2016 was the result of a 26.3% and 33.8% decrease, respectively, in the monthly average number of customers subscribing to our services and a 6.7% decrease and 15.3% increase in the monthly average revenue per customer.

On November 21, 2014 (the "Termination Date"), we terminated our sales and revenue sharing arrangement with our principal Sales Affiliate and as a result, we do not expect any new customer subscription activity in this channel for the foreseeable future as we are not adding any new customers in this channel as a significant number of our existing customers don't renew their subscriptions upon expiration. As a result, we anticipate that the monthly average number of customers subscribing to our services will decrease significantly going forward. Also, for customers who have renewed their service subscriptions with us subsequent to the Termination Date, we are no longer subject to the revenue share with the principal Sales

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Affiliate, which served to increase our monthly average revenue per customer in 2016 as compared to 2015 (see Provision on page 19 of this MD&A).

We anticipate the number of customers will likely continue to decline in 2016, resulting in a 35% to 40% decrease in Tech Support Channel revenue in 2016 as compared to 2015.

Revenue from our Consumer Marketing and Other Channels, which includes revenue for our consumer marketing customers, customers we acquired in May 2013 from a third party and our anti-virus partner customers, decreased by \$7,693, or 4.1%, from \$186,763 for the quarter ended June 30, 2015 to \$179,070 for the quarter ended June 30, 2016. This decrease was primarily due to a \$15,684 decrease in revenues generated from our Purchased Customers.

Revenue from our Consumer Marketing and Other Channels, decreased \$22,913, or 6.0%, from \$382,193 for the six months ended June 30, 2015 to \$359,280 for the six months ended June 30, 2016. This decrease was due primarily to a \$32,064 decrease in the revenue recognized from the Purchased Customers.

Cost of Revenue

Cost of revenue consists primarily of the following:

- Fees paid to data providers;
- Personnel related expenses in support of customer identity monitoring and identity theft resolution; and
- Other service related expenses.

Cost of revenue for the second quarter of 2016 was \$611,693, resulting in a gross profit of \$1,940,697, while our cost of revenue for the second quarter of 2015, was \$329,285, resulting in a gross profit of \$966,980. The gross margin for the second quarter of 2016 was 76.0% as compared to a gross margin of 74.6% for the second quarter of 2015.

Cost of revenue for the first six months of 2016 was \$1,296,028, resulting in a gross profit of \$3,829,037, while the cost of revenue for the first six months of 2015, was \$676,934, resulting in a gross profit of \$1,889,017. The gross margin for the first six months of 2016 was 74.7% as compared to a gross margin of 73.6% for the first six months of 2015

The \$282,408 increase in cost of revenue for the three months ended June 30, 2016 as compared to the similar period in the prior year is primarily the result of increased data services expenses and personnel- related expenses of \$197,092 and \$69,345, respectively.

The \$619,094 increase in cost of revenue for the six months ended June 30, 2016 as compared to the similar period in the prior year is primarily the result of increased data service expenses, and personnel- related expenses of \$443,585 and \$135,340, respectively.

Our data costs increased as a result of a significant increase in the number of customers subscribing to services with higher data cost and from additional costs for enhancement to our identity theft services. Data costs, as a percent of revenue, increased to 14.5% for the three month periods ended June 30, 2016 from 12.8% in the prior year period, and to 15.8% for the six-month period ended June 30, 2016, from 13.7% in the prior period. Data costs, as a

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percentage of revenue, will generally be higher in the first quarter of the year as compared to the remaining quarters, as we add a significant number of new customers during first quarter and we incur additional activation costs when new customers subscribe to our services.

Personnel related expenses increased as a result of increased staffing levels in order to provide 24 hour/7 days per week customer service and to service a growing customer base. These expenses represented 6.4% and 7.3% of revenue for the three months ended June 30, 2016 and 2015, respectively, and 6.2% and 7.1% of revenue for the six month periods ended June 30, 2016 and 2015, respectively.

Other costs of revenue increased primarily as a result of increased customer communication expense as a result of both a growing customer base as well as increased levels of communication. These expenses represented 3.1%, 4.8%, 3.3% and 5.0%, respectively, of revenue for the three and six months ended June 30, 2016 and 2015.

General and Administrative Expense

General and administrative expense consists primarily of the following:

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

General and administrative expense increased \$134,549, or 35.6%, from \$377,673 during the second quarter of 2015 to \$512,222 during the second quarter of 2016. This increase is primarily due to a \$122,160 increase in personnel related expense driven by and an increase in the number of information technology personnel and from salary increases.

General and administrative expense increased \$399,727, or 59.4%, from \$708,899 during the first six months of 2015 to \$1,108,621 during the first six months of 2016. This increase is primarily the result of a \$322,359 increase in personnel costs, and \$23,781 increase in travel related expenses. The increase in personnel related expense driven by and an increase in the number of information technology personnel, executive incentive compensation expense and from salary increases.

Benefit Broker Commission Expense

Benefit Broker commission expense are the commissions we pay to the various Benefit Brokers who promote our services to their employer clients. For these services, we pay the Benefit Brokers a commission based on a percentage of the revenues they generate.

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Benefits Broker commission expense increased by \$365,956, or 165.6%, from \$220,954 for the three months ended June 30, 2015 to \$586,910 for the similar period in 2016. Benefits Broker commission expense increased by \$753,040, or 172.4%, from \$436,858 for the six months ended June 30, 2015 to \$1,189,898 for the similar period in 2016.

Benefit Broker commission expense as a percent of Employee Benefit Channel revenue increased from 24.1% for the quarter ended June 30, 2015 to 26.2% for the quarter ended June 30, 2016 and 24.3% for the six months ended June 30, 2015 to 26.6% for the six months ended June 30, 2016, because a significant portion of our Employee Benefit Channel revenue growth during 2016 was generated by Benefit Brokers who earned higher commission rates.

Sales and Marketing Expense

Sales and marketing expense consists primarily of the following:

- Salaries, commissions and benefits of sales and marketing personnel;
- Trade shows and other selling events, and promotional materials;
- Travel and entertainment expenses; and
- Other marketing expenses.

Sales and marketing expense for the second quarter of 2016 totaled \$365,336 as compared to \$209,212 for the similar period in 2015, an increase of \$156,124, or 74.6%. The significant items contributing to this increase are as follows:

- A \$50,568 increase in personnel related expenses;
- A \$46,196 increase in trade shows and other selling events, and promotional materials; and
- A \$26,375 increase in travel and entertainment related expenses.

Sales and marketing expense for the first six months of 2016 totaled \$722,486 as compared to \$421,831 for the similar period in 2015, an increase of \$300,655, or 71.3%. The significant items contributing to this increase are as follows:

- A \$106,536 increase in trade shows and other selling events, and other promotional materials;
- A \$80,580 increase in personnel related expenses due to the hiring of additional sales and account management personnel and increased sales commission expense; and
- A \$47,962 increase in travel and entertainment expenses.

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Adjusted EBITDA

For the second quarter of 2016, adjusted EBITDA increased by \$317,088 to \$476,229 as compared with \$159,141 for the similar period in 2015. The increase in adjusted EBITDA is due to a \$973,717 improvement in gross margin as described above, which was partially offset by increased general and administrative, Benefit Broker commission expense and sales and marketing expenses.

For the first six months of 2016, adjusted EBITDA improved by \$486,603 to \$808,032 as compared with \$321,429 for the similar period in 2015. The improvement in adjusted EBITDA is due primarily to the \$1,940,020 improvement in gross margin as described above, which was partially offset by an increases in Benefit Broker commission expense, general and administrative expenses and sales and marketing expenses.

Share-based Compensation

The Company follows IFRS 2 "Stock-based compensation and other stock-based payments", which established standards for the recognition, measurement and disclosure of share-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 reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision in the consolidated statements of operations with a corresponding adjustment to share capital.

Share compensation expense will vary from year to year 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.

Share-based compensation expense for the second quarter of 2016 totaled \$268,729 as compared to \$11,066 for the similar period in 2015, an increase of \$257,663. Share-based compensation expense for the first six months of 2016 totalled \$295,998 as compared to \$25,359 for the similar period in 2015, an increase of \$270,639. This increase was the result of the options granted to officers, directors and employees in the second quarter of 2016 to purchase 7,393,000 of the Company's Ordinary Shares.

Interest Expense

Interest expense includes interest on the Company's Promissory Notes, dividends on the Series C Preferred shares, which accrue at 8% per annum, accretion of the liquidation

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preferences on the Series C Preferred shares, amortization of the offering costs incurred for the issuance of the Series C Preferred shares, amortization of the discount related to the estimated fair value of the warrants issued as consideration for the April 2015 amendment to the Series C Preferred shares, amortization of Credit Facility costs and interest on the Credit Facility and on the financing leases.

Interest expense for the three and six months ended June 30, 2016 and 2015 consisted of the following:

	Three Months Ended June,	
	2016	2015
Accrued dividends on Series C Preferred.....	\$ —	\$ 61,470
Accretion of Series C Preferred liquidation preference.....	—	43,012
Amortization of discount related to fair value of Series C Preferred detachable warrants.....	—	47,087
Amortization of offering costs.....	—	28,727
Amortization of discount related to Series C Preferred amendment warrants.....	—	16,379
Interest expense on Promissory Notes.....	102,916	—
Interest expense on financing leases and other debt, net.....	613	19,916
Amortization of deferred financing fees.....	—	83,777
Total.....	\$ 103,529	\$ 300,368

	Six Months Ended June 30,	
	2016	2015
Accrued dividends on Series C Preferred.....	\$ 37,052	\$ 122,940
Accretion of Series C Preferred liquidation preference.....	25,928	86,024
Amortization of fair value of Series C Preferred detachable warrants.....	28,383	94,174
Amortization of offering costs.....	17,317	57,454
Amortization of discount related to Series C Preferred amendment warrants.....	12,869	16,379
Interest expense of Promissory Notes.....	143,630	—
Interest expense on financing leases and other debt, net.....	1,375	30,679
Amortization of deferred financing fees.....	—	125,224
Total.....	\$ 266,554	\$ 532,874

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Gain (Loss) on Warrant Liabilities

Certain of our warrant agreements, which expired on February 24, 2016, contained anti-dilution provisions, which if triggered by the issuance by the Company of equity securities below certain levels as defined in the individual warrant agreement, could have resulted in a reduction of the exercise price of the warrants. We recorded these warrants as warrant liability at fair value in the accompanying unaudited consolidated statements of financial position. The warrant liability was measured at estimated fair value with subsequent changes in fair value recorded as a gain or loss in the unaudited consolidated statements of operations until such time as the warrants were exercised, expired or were permitted to be classified in shareholders' equity.

During the three and six months ended June 30, 2016 and 2015, we recognized non-cash gains from the change in the fair value of these warrants of \$0, \$0, \$317,709 and \$199,659, respectively.

These warrants expired on February 24, 2016.

Provision

During the three and six months ended June 30, 2016, the Company recorded provision expense of \$142,414 and \$182,222, respectively, related to a litigation claim. The expense for these periods is primarily due to an increase in the estimated amount of legal fees to be incurred to resolve these claims. No similar expense was recorded during the three and six months ended June 30, 2015.

Liquidity and Capital Resources

	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Current Assets		
Cash	\$ 2,246,527	\$ 1,069,289
Trade receivables	542,391	311,136
Prepaid expenses	186,970	170,434
	<u>2,975,888</u>	<u>1,550,859</u>
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,850,893	\$ 1,155,320
Deferred revenue	340,958	473,481
Provision	365,000	350,000
Current portion of long-term debt	9,947	18,532
	<u>2,566,798</u>	<u>1,997,333</u>
Net Working Capital (Deficiency)	<u>\$ 409,090</u>	<u>\$ (446,474)</u>

As of June 30, 2016, cash and cash equivalents totaled \$2,246,527 compared to \$1,069,289 as of December 31, 2015. Net working capital (deficiency) at June 30, 2016 was \$409,090

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compared to \$(446,474) at December 31, 2015, reflecting an increase of \$855,564 in net working capital.

For the six months ended June, 2016 and 2015, cash provided by operations was \$805,337 and \$448,149, respectively. The increase in cash provided by operating activities, when comparing the two periods, was primarily the result of a \$486,603 improvement in adjusted EBITDA and also from an increase in working capital from 2015 to 2016.

For the six months ended June 30, 2016 and 2015, cash flows used in investing activities totaled \$55,569 and \$18,019, respectively. Cash flows used in investing activities in 2016 and 2015 were for capital expenditures, with the majority of the 2016 capital expenditures relating to purchases of computer hardware.

Cash flows provided by (used in) financing activities totaled \$427,470 and (\$466,864) for the six months ended June 30, 2016 and 2015, respectively, and are as follows:

	Six Months Ended June 30,	
	2016	2015
Proceeds from exercise of warrants.....	\$ 438,000	\$ —
Repayment of finance lease obligations.....	(10,530)	(7,718)
Repayments on Credit Facility.....	—	(319,146)
Credit Facility Fees.....	—	(140,000)
Net cash used in financing activities.....	\$ 427,470	\$ (466,864)

On June 19, 2015, the Company repaid all the outstanding principal, a prepayment fee and interest due on its Credit Facility and during the first half of 2015 paid the above listed Credit Facility fees (see Note 5 to the unaudited consolidated interim condensed financial statements).

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Commitments

As of June 30, 2016, the Company has commitments under various data provider agreements, a lease for office space and service contract obligations for operating expenses through the expiration of the obligations in the aggregate of:

Period	Data Provider	Operating Leases	Other	Total Commitments
July 1 through December 31, 2016	\$ 192,000	\$ 48,487	\$ 5,424	\$ 245,911
2017	297,000	99,342	9,040	405,382
2018	67,000	8,295		75,295
2019	15,000			15,000
Totals	<u>\$ 571,000</u>	<u>\$ 156,124</u>	<u>\$ 14,464</u>	<u>\$ 741,588</u>

For the three and six month periods ended June 30, 2016 and 2015, the Company recognized rent expense for leased office space of \$21,918 and \$43,248, \$21,330, \$42,660, respectively.

Capital Resources

The Company will seek to grow its customer base primarily through the Employee Benefit Channel. The Company continues to make progress in expanding its network of employee benefit brokers who market our services to their employer clients for inclusion in the client's employee benefit plans as primarily a voluntary employee benefit.

As of June 30, 2016, our cash balances totaled \$2,246,527. We are dependent upon our existing cash balances, along with our cash flow generated from operations, and additional debt or equity financing, if available, to fund our debt service, expansion plans and other working capital needs.

The Company generated operating income and cash flows from operating activities of \$480,226 and \$805,337 for the six months ended June 30, 2016, respectively, and \$274,902 and \$448,149 for the six months ended June 30, 2015, respectively. Given the Company's existing cash balances and projected cash provided by operating activities, the Company believes it will have sufficient liquidity to fund its operating activities, capital expenditures, debt service and working capital needs for the foreseeable future (at least twelve months from June 30, 2016).

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The Company's Series C Preferred shares matured on February 24, 2016. The holders of the Series C Preferred had the right on or prior to the Maturity Date to convert each Series C Preferred share into 10,000 Ordinary Shares. On, or immediately prior to the Maturity Date, certain Series C Preferred shareholders converted 1,399,960 shares of Series C Preferred shares into 13,999,600 Ordinary Shares of the Company. The remaining 1,673,520 Series C Preferred shares, which were not converted to Ordinary Shares, were redeemed by the Company through the issuance of Promissory Notes with a total principal amount of \$2,811,956. The Promissory Notes are unsecured, pay cash interest on a quarterly basis at a rate of 15% per annum, and may be repaid by the Company at any time without penalty.

In conjunction with the issuance of the Series C Preferred shares in February 2011, the Company issued 19,965,886 warrants to purchase Ordinary Shares of the Company with an exercise price of \$0.12 per Ordinary Share and an expiration date of February 24, 2016 (the "Warrants"). Prior to expiration, certain holders exercised the Warrants and were issued 4,150,000 Ordinary Shares; the Company received \$498,000 of total consideration, which included \$438,000 of cash proceeds and \$60,000 as a reduction of a Promissory Note (see Note 5).

The Company will seek to enter into a credit facility in 2016 to repay the Promissory Notes and further reduce our interest expense. However, there can be no assurance the Company will be successful in securing a credit facility or on terms it believes are acceptable.

Outstanding Share Data

We are authorized to issue up to 450,000,000 Ordinary Shares with no par value and up to 450,000,000 preferred shares. As of June 30, 2016, we have the following equity securities outstanding:

Ordinary Shares

- 139,984,597 Ordinary Shares outstanding;
- 21,033,600 warrants, each of which is exercisable for one Ordinary Share at prices ranging from \$0.10 to \$0.25; and
- 18,551,000 stock options, each of which is exercisable for one Ordinary Share at prices ranging from \$0.06 to \$0.15 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.

Series C Preferred Stock

On February 24, 2011, the Company issued 3,123,481 shares of its Series C Preferred shares. In June 2012, 50 shares of the Series C Preferred were converted to Ordinary Shares. As of December 31, 2015, the Company had outstanding 3,073,481 shares of its Series C Preferred shares. The holders of the Series C Preferred shares had the right to convert each share of their Series C Preferred into 10,000 Ordinary Shares of the Company, or 30,734,810 Ordinary

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Shares. The Company has reserved 30,734,810 of its Ordinary Shares to effect the conversion of Series C Preferred. The Series C Preferred shares were considered mandatory redeemable shares and were classified as a liability on the Company's consolidated statement of financial position as of December 31, 2015.

The Company's Series C Preferred matured on February 24, 2016. The holders of the Series C Preferred had the right on or prior to the Maturity Date to convert each Series C Preferred share into 10,000 Ordinary Shares. On, or immediately prior to the Maturity Date, certain Series C Preferred shareholders converted 1,399,960 shares of Series C Preferred shares into 13,999,600 Ordinary Shares of the Company. The remaining 1,673,520 Series C Preferred shares, which were not converted to Ordinary Shares, were redeemed by the Company through the issuance of Promissory Notes with a total principal amount of \$2,811,956 (see Notes 5 and 6).

Off-balance Sheet Arrangements

Other than the office lease commitment described in Note 7 to the Company's June 30, 2016 unaudited consolidated interim condensed financial statements and obligations described in the "Commitments" section above, the Company did not have any off-balance sheet arrangements as of June 30, 2016.

Transactions with Related Parties

During the first quarter of 2016, certain key management personnel elected to convert 44.5 Series C Preferred shares they owned to Ordinary Shares and were issued 445,000 Ordinary Shares. The remaining 80.5 Series C Preferred shares owned by these individuals were redeemed by the Company upon Maturity and the key management personnel were issued Promissory Notes with a principal amount totaling \$135,216. Interest expense on these notes totaled \$6,629 and \$9,252 for the three and six months ended June 30, 2016, respectively. In addition, these individuals paid to the Company \$75,000 to exercise 650,000 of the \$.12 Warrants and were issued 650,000 Ordinary Shares.

Provision

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

On October 12, 2015, the Sales Affiliate filed a complaint against the Company in U.S. District Court alleging it is due approximately \$600,000 plus future amounts for unpaid fees and customer subscription renewals. The Sales Affiliate's claim is based on an estimate of subscription renewals subsequent to termination (the "Subscription Renewals"). Subsequent to the filing of the complaint the Sales Affiliate has disclosed a revised estimate of the Subscription Renewals claim in an amount of \$705,000. The case is set for trial for September, 2016.

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The Company and its legal advisors believe these claims are without merit and are vigorously defending itself against these claims. The Company believes the resolution of this matter will not have a material adverse effect on its financial condition and results of operations as reported in the accompanying financial statements. However, depending on the amount and timing of an unfavorable resolution of this claim, it is possible that the Company's future results of operations or cash flows could be materially affected in a particular period.

The Company has recorded as a liability in its consolidated statements of financial position a litigation provision of \$365,000 and \$350,000 as of June 30, 2016 and December 31, 2015, respectively, as its best estimate of the costs to defend and resolve these claims. The Company believes any outflow of funds required to resolve this matter will likely occur within six months from June 30, 2016.

Significant Accounting Judgment and Estimates

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

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

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

(1) Judgments

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

(i) Provisions and contingencies

From time to time, the Company is involved in claims in the normal course of business. Management assesses such claims and where considered probable to result in a material exposure and where the amount of the claim can be reasonably estimated,

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provisions for loss are made based on management's assessment of the likely outcome.

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

(ii) Going concern assumption

The assessment of the Company's ability to execute its strategy by funding future working capital requirements involves judgment, which is evaluated by management continually.

(iii) Revenue recognition and presentation

When deciding the most appropriate basis for presenting revenue or direct costs of revenue, both legal form and substance of the agreement between the Company and its business partners are reviewed to determine each party's respective role in the transaction. This determination requires the exercise of judgment and management usually considers whether (a) the Company has primary responsibility for providing the services to the customer; (b) the Company has discretion in establishing prices; (c) the Company bears the customer's credit risk and (d) the Company is involved in determining service specifications.

(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 was convertible at the date of issuance, a portion of the proceeds were allocated to the conversion feature embedded in the Series C Preferred. Also, see Note 6 (a) of the consolidated interim condensed financial statements.

(ii) Warrants and options

The Company uses the Black-Scholes option pricing model to value warrants and stock options. The Black-Scholes model requires the use of a number of assumptions,

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including expected share price volatility, risk-free interest rates, expected term and dividend yield.

The estimated expected share price volatility is based on the Company's historical share price volatility. The risk-free interest rate is based on the U.S. Treasury bill rate for the expected term of the related warrants and stock options. The expected term of stock options represents the period of time that the stock options granted are expected to be outstanding. As the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero. In addition to the Black-Scholes model assumptions used in estimating the value of stock options, the Company also utilizes an estimated forfeiture rate, which determined based upon a combination of industry data and the Company's historical experience.

(iii) Trade receivables and allowance for doubtful accounts

Trade receivables are recorded at the estimated recoverable amount which requires management to estimate uncollectable accounts. Management analyzes 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 trade receivable.

(iv) Property and equipment

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

(v) Customer agreements

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

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

The valuations associated with measuring the recoverability of customer agreements

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for impairment analysis purposes involve significant estimates and assumptions, including those with respect to future cash inflows and outflows, discount rates, terminal growth rates and asset lives. These significant estimates could affect the Company's future results if the current estimates of future performance and fair values change.

(vi) Provisions

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

Future Accounting Pronouncements

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

IFRS 9 Financial Instruments

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets and liabilities. IFRS 9 uses a single approach to determine whether a financial instrument is measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of those financial instruments. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The IASB has established a tentative adoption date of January 1, 2018 for this IFRS. The Company will be required to adopt IFRS 9 in the future and has not fully assessed the impact of adopting IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall under the scope of other IFRSs. It specifies how and when to recognize revenue as well as requiring entities to provide more information and relevant disclosure. IFRS 15 is to be applied on either a full or modified retrospective approach and is effective for annual period beginning on or after January 1, 2018, with earlier application permitted. The Company has not fully assessed the impact of adopting IFRS 15.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial

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assets and depreciated accordingly and the liability accrues interest. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 has also been applied. The Company will be required to adopt IFRS 16 in the future and has not fully assessed the impact of adopting IFRS 16.

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 \$2,163,904 for the liability portion of the Series C Preferred stock. Further, as the Series C Preferred was 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 were classified as liabilities in the Company's statements of financial position as of December 31, 2015, and the discount was amortized over the period from issuance to February 24, 2016 (the redemption date) as a charge to interest expense.

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Forward-looking Information and Statements

Certain statements contained in this report constitute forward looking information within the meaning of applicable securities laws. Implicit in this information, particularly in respect of the Company's future operating results, economic performance and the ultimate outcome of provisions and contingencies 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 six month periods ended June 30, 2016 and 2015, this report also discusses certain important events that occurred between the end of the period and July 28, 2016.

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 Benefit Channel and ultimately our customer base by significantly expanding the number of Benefit Broker relationships and the depth and breadth of our relationships within these Benefit Brokers Efforts -- See Marketing of Services;
- Belief that it will likely generate positive earnings, before net interest expense, income taxes, depreciation and amortization, share-based compensation litigation provision, gain on disposition of assets and gain (loss) on warrant liability for the year ending December 31, 2016--See Capital Resources;
- Belief that it will have sufficient liquidity to fund its operating activities and working capital needs for at least twelve months from June 30, 2016—See Capital Resources.
- Estimation that revenue from its Tech Support Channel will decline from 35% to 40% in 2016—See Results of Operations.
- Management's estimate of the outflow of resources and the belief that it is probable that an outflow or resources will be required in order to resolve a certain claim made against it by its Sales Affiliate—See Provision.

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, litigation, 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

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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 department identifies and evaluates 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. The loss of certain of these distribution partners may have a material adverse effect on our business, financial condition, and results of operation.

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, 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.

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.

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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.

Litigation

From time to time, the Company is involved in claims in the normal course of business. Management assesses such claims and where considered probable to result in a material exposure and where the amount of the claim can be reasonably estimated, provisions for loss are made based on management's assessment of the likely outcome.

Any adverse outcome to our litigation could be material and could have a material adverse effect on our business, operating results and financial condition.

Security of Confidential Information

Our services require us to collect, store, use, and transmit significant amounts of confidential information, including, but not limited to, personally identifiable information, credit card information, and other categories of sensitive data. We employ a range of information technology solutions, controls, procedures, and processes designed to protect the confidentiality, integrity, and availability of our data and information technology systems. While we engage in a number of measures aimed to protect against security breaches and to mitigate as much risk as possible if a data breach were to occur, our information technology systems and infrastructure may be vulnerable to damage, compromise, disruption, and shutdown due to vulnerabilities, attacks, or breaches by cyber criminals or due to other circumstances, such as employee error or malfeasance and 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 corrupted. Any such circumstance could potentially have an adverse effect on 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 and regulatory penalties.

Government Regulation

Our business and the information we use in our business is subject to federal, state, and local laws and regulations, including, but not limited to, the FCRA, the Gramm-Leach-Bliley Act, the FTC Act, and state laws that allow state attorneys general to enforce regulations similar to those found in the FTC Act. We operate our business and monitor our compliance with these laws and regulations at great cost to us and any changes to the laws or regulations that currently apply, 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, both of which could have a material adverse effect on our business,

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operating results, financial condition, and prospects. All of these laws and regulations are 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, and 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 regulatory fines and penalties, loss of customer confidence in our services, and loss of customers, all of which could adversely affect our business.

Credit, Liquidity and Market Risks

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

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 trade receivable from customers.

(i) Trade and other receivables

The Company is exposed to credit risk from its customers. Because of the nature of the services provided by the Company and the infrequent occurrence of uncollectible accounts, the Company typically does not perform credit checks on its customers in advance of providing service to the customers and, therefore, does not have specific knowledge regarding the credit quality of its customers. However, the Company provides its services to a significant number of customers, which minimizes concentration of credit risk. Additionally, the Company reviews its trade receivable aging report on a monthly basis and follows up on any accounts that are past due.

As of June 30, 2016, trade receivables that are considered past due (over 30 days past due from the date of the invoice) totaled \$26,975, none of which the Company considered to be impaired. The gross trade receivables at June 30, 2016 and December 31, 2015, was \$550,218 and \$317,649, respectively. For the six months ended June 30, 2016 and 2015, the Company recorded bad debt expense of \$1,314 and \$1,099, respectively.

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(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.

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 managing the maturity profile of its financial liabilities. The Company currently finances its operations through internally generated cash flows and available cash balances.

The table below is a summary of the Company's debt maturities as of June 30, 2016:

	Finance Leases	Promissory Notes (1)	Total
July 1, 2016 to December 31, 2016.....	\$ 8,002	\$ —	\$ 8,002
2017.....	3,973	2,751,956	2,755,929
2018.....	4,318	—	4,318
2019.....	4,692	—	4,692
2020.....	4,658	—	4,658
Total.....	<u>\$ 35,643</u>	<u>\$ 2,751,956</u>	<u>\$ 2,777,599</u>

(1) See Notes 5 and 6 regarding the maturity, and other terms of the Promissory Notes

The Company will seek to enter into a credit facility in 2016 to repay the Promissory Notes and reduce our interest expense. However, there can be no assurance the Company will be successful in securing a credit facility or on terms it believes are acceptable.

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.

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(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 U.S. dollars.

This MD&A was authorized for issue by the Audit Committee and the Board of Directors on July 28 2016.