

ID WATCHDOG, INC.

**CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

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

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

ID WATCHDOG, INC.

CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS

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

	September 30, 2011	December 31, 2010	January 1, 2010
ASSETS		(Restated- Note 4)	(Restated- Note 4)
Current assets:			
Cash and cash equivalents	\$ 285,159	\$ 99,082	\$ 488,689
Restricted cash (Note 3(c))	—	61,057	171,752
Accounts receivable	82,311	72,892	89,175
Prepaid expenses and other	74,695	136,243	161,428
Total current assets	442,165	369,274	911,044
Property and equipment, net (Note 5)	184,887	203,137	376,411
Total assets	\$ 627,052	\$ 572,411	\$ 1,287,455
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 404,429	\$ 1,275,492	\$ 1,530,859
Accrued liabilities	309,145	985,811	595,536
Current portion of capital lease obligation (Note 7)	23,723	2,290	2,290
Deferred revenue	236,397	360,762	378,056
10% extendable deferred convertible notes, net of amortization of discount of \$384,116 and \$0 (Note 7)	—	3,203,880	1,095,655
Total current liabilities	973,694	5,828,235	3,602,396
Deferred Rent	8,409	—	—
Capital lease obligation, net of current portion (Note 7)	52,748	2,476	5,406
Series C Preferred mandatorily redeemable preferred shares, net of discount and conversion feature (Note 8)	2,241,590	—	—
Total liabilities	3,276,441	5,830,711	3,607,802
Commitments and Contingencies			
SHAREHOLDERS' DEFICIT			
Share capital (Note 8, 9, 10 and 11):			
Preferred shares; 450,000,000 shares authorized			
Ordinary shares; no par value; 450,000,000 shares authorized:			
Ordinary Shares	23,329,576	19,754,150	19,754,150
Contributed Surplus	893,259	484,814	433,644
Warrants	1,882,168	1,018,582	1,018,582
Accumulated deficit	(28,754,392)	(26,515,846)	(23,526,723)
Total shareholders' deficit	(2,649,389)	(5,258,300)	(2,320,347)
Total liabilities and shareholders' deficit	\$ 627,052	\$ 572,411	\$ 1,287,455

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010 (Restated- Note 4)	2011	2010 (Restated- Note 4)
Revenue	\$ 446,817	\$ 698,230	\$ 1,542,511	\$ 2,776,647
Cost of revenue	243,380	68,751	449,652	303,506
Gross profit	203,437	629,479	1,092,859	2,473,141
Operating expense:				
General and administrative expense	552,272	510,127	1,869,228	1,753,951
Marketing expense	147,495	191,529	454,827	1,213,348
Stock – based compensation expense	119,647	11,854	408,445	39,656
Depreciation and amortization expense	38,069	64,434	143,521	188,763
	<u>857,483</u>	<u>777,944</u>	<u>2,876,021</u>	<u>3,195,718</u>
Operating loss	(654,046)	(148,465)	(1,783,162)	(722,576)
Other income (expense):				
Interest income	1,133	1,775	3,527	5,069
Interest expense	(121,524)	(219,070)	(458,911)	(1,375,792)
	<u>(120,391)</u>	<u>(217,295)</u>	<u>(455,384)</u>	<u>(1,370,723)</u>
Net loss and comprehensive loss applicable to ordinary shares	<u>\$ (774,437)</u>	<u>\$ (365,760)</u>	<u>\$ (2,238,546)</u>	<u>\$ (2,093,299)</u>
Basic and diluted net loss per share applicable to ordinary shares	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
Weighted average number of shares outstanding - basic and diluted	<u>101,348,330</u>	<u>62,916,107</u>	<u>93,605,574</u>	<u>62,916,107</u>

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

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

	<u>Ordinary Shares</u>	<u>Ordinary Shares Amount</u>	<u>Contributed Surplus</u>	<u>Warrants</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Deficit</u>
Balances January 1, 2010....	62,916,107	\$ 19,754,150	\$ 433,644	\$1,018,582	(\$ 23,526,723)	(\$ 2,320,347)
Net loss.....	—	—	—	—	(2,093,299)	(2,093,299)
Share based compensation expense and stock options issued for services.....	—	—	39,656	—	—	39,656
Balances September 30, 2010.....	<u>62,916,107</u>	<u>\$ 19,754,150</u>	<u>\$ 473,300</u>	<u>\$1,018,582</u>	<u>(\$ 25,620,022)</u>	<u>(\$ 4,373,990)</u>

	<u>Ordinary Shares</u>	<u>Ordinary Shares Amount</u>	<u>Contributed Surplus</u>	<u>Warrants</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Deficit</u>
Balances January 1, 2011....	62,916,107	\$ 19,754,150	\$ 484,814	\$1,018,582	(\$ 26,515,846)	(\$ 5,258,300)
Net loss.....	—	—	—	—	(2,238,546)	(2,238,546)
Share based compensation expense and stock options issued for services.....	—	—	408,445	—	—	408,445
Shares issued in exchange of \$3,028,879 of the 2009 and 2010 convertible notes at \$0.10 per share, net of issuance costs.....	30,288,769	2,815,359	—	—	—	2,815,359
Shares issued in exchange of \$814,345 trade payable debt at \$0.10 per share, net of issuance costs.....	8,143,454	760,067	—	—	—	760,067
Warrants issued on Series C Preferred shares, placement agent warrants and other warrants, net of issuance costs.....	—	—	—	863,586	—	863,586
Balance, September 30, 2011.....	<u>101,348,330</u>	<u>\$ 23,329,576</u>	<u>\$ 893,259</u>	<u>\$1,882,168</u>	<u>(\$ 28,754,392)</u>	<u>(\$ 2,649,389)</u>

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

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

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (2,238,546)	\$ (2,093,299)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	143,521	188,763
Interest expense, amortization of warrants issued with Series C Preferred shares	113,947	—
Amortization of debt offering costs and convertible notes/debenture discount	25,090	1,051,085
Interest expense – accrued dividends on Series C Preferred shares	149,242	—
Share-based compensation expense to employees, directors and consultants	408,445	39,656
Issuance of Ordinary shares in payment of interest	96,100	—
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(9,419)	(19,978)
Decrease (increase) in prepaid expenses and other	16,926	9,172
Allowance for uncollectible note	44,622	—
Decrease (increase) in deferred revenue	(124,365)	—
Increase (decrease) in deferred rent	8,409	—
Increase (decrease) in accounts payable and accrued liabilities	(733,384)	(748,864)
Net cash used in operating activities	(2,099,412)	(1,573,465)
Cash flows from investing activities:		
Capital expenditures	(56,102)	(27,057)
Net cash used in investing activities	(56,102)	(27,057)
Cash flows from financing activities:		
Proceeds from issuance of Series C convertible preferred shares and warrants, net	2,816,897	—
Proceeds from issuance of 10% extendible deferred convertible notes and warrants, net	—	1,268,920
Repayment of debt	(271,100)	—
Issuance costs related to conversion of debt and trade payables into ordinary shares	(267,799)	—
Change in restricted cash	61,057	79,168
Borrowing, capital lease obligation	6,000	—
Repayment of capital lease obligation	(3,464)	(2,172)
Net cash provided by financing activities	2,341,591	1,345,916
Net increase (decrease) in cash	\$ 186,077	\$ (254,606)
Cash and cash equivalents, beginning of period	99,082	488,689
Cash and cash equivalents, end of period	\$ 285,159	\$ 234,083
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 457,609	\$ 324,089
Supplemental disclosure of non-cash investing and financing activities:		
Ordinary shares issued upon the conversion of debt and accounts payable	\$ 3,747,125	\$ —

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ID WATCHDOG, INC.
NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
(Unaudited)
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1. General Business Description and Liquidity

Business Description

ID Watchdog, Inc. ("ID Watchdog" or the "Company") provides a variety of identity theft detection and resolution services primarily to individual consumers on a subscription basis, through its wholly owned subsidiary, Identity Rehab Corporation ("ID Rehab"). The Company's address is 621 17th Street, Suite 600, Denver, CO 80293.

ID Watchdog is a limited liability exempted company incorporated on May 13, 2008, under the laws of the Cayman Islands.

The Company's ordinary shares are listed on the TSX Venture Exchange (the "TSXV") trading under the symbol "IDW".

The accompanying consolidated financial statements include the results of operations of the Company and those of those of its wholly owned subsidiaries ID Rehab and WDI Processing, LLC.

Liquidity

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

On February 24, 2011, the Company completed a recapitalization of the Company (the "Recapitalization"), in which it raised \$2,816,897 in net proceeds from the sale of preferred stock, retired \$2,932,780 of debt in exchange for ordinary shares in the Company (the "Ordinary Shares") and repaid \$814,445 of trade payables in exchange for Ordinary Shares. The details of the Recapitalization activities are as follows:

- The sale of 3,123,481 shares of Series C Preferred (as defined below) as a part of units, at a price of \$1,000 per unit, with each unit consisting of one (1) Series C Convertible Preferred share of no par value (the "Series C Preferred") and 5,000 warrants to purchase Ordinary Shares (the "Recap Warrants") (each one share of Series C Preferred and 5,000 warrants a "Recap Unit" and collectively the "Recap Units"). The gross proceeds from the sale of the Recap Units were \$3,123,481. The terms of the Series C Preferred are summarized below under the caption "Summary of Terms of the Series C Preferred." Each Recap Warrant is exercisable into one Ordinary Share at a price of \$0.12 at any time before February 24, 2016. The Recap Warrants are, at the option of the holder, exercisable on a cashless basis whereby the holder of the warrant will be entitled to receive that number of Ordinary Shares equivalent to the "in-the-money" value of the warrant divided by a minimum exercise price of \$0.12 per Ordinary Share.
- The issuance of 30,288,769 Ordinary Shares, for repayment of \$2,932,780 face amount of outstanding convertible notes. The convertible notes consisted of \$1,703,000 of notes issued in October and November of 2009 maturing in September 2010 (the "2009 Notes") and \$1,500,000 of convertible notes (the "2010 Notes") outstanding with an extended maturity to February 2011. During the first quarter of 2011, a consent offer was made to the holders of the 2009 Notes and the 2010 Notes to exchange their notes for cash and Ordinary Shares. For each \$1,000 original face amount of 2009 Note and the 2010 Notes, the holders received \$200 in cash and that number of shares of our Ordinary Shares which is equal to the sum of \$1,000 plus applicable accrued interest thereon as of the closing of the offer, divided by \$0.10. Holders of \$271,100 face amount of the 2009 Notes and the 2010 Notes chose not to participate in the exchange and were repaid in cash. As of February 24, 2011, all of the 2009 and 2010 Notes had been repaid.

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- The Company repaid \$814,345 of certain trade payables through the issuance of 8,143,450 Ordinary Shares (the "Vendor Ordinary Shares") at an issuance price of \$0.10 per Ordinary Share.
- The Company paid the placement agent and other financial advisors \$412,186 and issued 4,373,481 of warrants exercisable into one Ordinary Share in the capital of the Company at a price of \$.12 per warrant. The warrants can be exercised at any time before February 24, 2016. In addition, the Company incurred \$118,020 of inducement fees and expenses to assist with the convertibles notes and trade payables exchanges described above.

Our cash balances as of September 30, 2011 were \$285,159. We are dependent upon our existing cash balances, along with our cash flow generated from gross profits and/ or additional debt or equity financing to fund our operating activities, our expansion plans and other working capital needs.

On November 8, 2011, the Company closed its \$2.0 million Units Offering. Net proceeds from the Units Offering are estimated to be approximately \$1,815,000, which will be used to fund operating deficits, to hire and compensate additional personnel and for general working capital purposes. The Company believes it has sufficient liquidity to fund its operating losses and working capital needs until mid 2012 when the Company projects that it will reach positive operating income.

2. Significant Accounting Policies and Basis of Presentation

(a) Statement of Compliance

In conjunction with the Company's annual audited consolidated financial statements to be issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011, these interim consolidated condensed financial statements present Company's financial results of operations and financial position for the three and nine months ended September 30, 2011, including the 2010 comparative periods. The financial statements have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed interim consolidated financial statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Company prepared its interim and annual consolidated financial statement in accordance with United States generally accepted accounting principles ("U.S. GAAP").

The preparation of these condensed interim consolidated financial statements resulted in selected changes to the Company's accounting policies as compared to those disclosed in the Company's annual audited consolidated financial statements for the period ended December 31, 2010 issued under U.S. GAAP. A summary of significant changes to the Company's accounting policies is disclosed in Note 4 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods including the following statements: statements of financial position as of January 1 and December 31, 2010, statements of operations for the three and nine months ended September 30, 2010, and statements of shareholders' deficit as of January 1 and December 31, 2010.

A summary of the Company's significant accounting policies under IFRS is presented in Note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1 as disclosed in Note 4.

The interim condensed financial statements should be read in conjunction with the Company's U. S. GAAP annual audited consolidated financial statements for the year ended December 31, 2010. These unaudited condensed interim consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors on November 28, 2011.

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(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Recent Accounting Pronouncements

The IASB issued a number of new and revised Internal Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after January 1, 2011, For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods:

- IFRS 9, Financial Instruments, addresses the classification and measurement of financial assets;
- IFRS 10, Consolidated Financial Statements, builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company;
- IFRS 11, Joint Arrangements, establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled;
- IFRS 12, Disclosure of Interest in Other Entities, provides the disclosure requirements for interest held in other entities including joint arrangements, associates, special purpose entities and other off interim condensed consolidated financial statements entities;
- IFRS 13, Fair Value Measurement defines fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosure relating to fair value measurements;
- IAS 27, Separate Financial Statements, revised the existing standard which addresses the presentation of parent company financial statements that are not consolidated financial statements; and
- IAS 28, Investments in Associate and Joint Ventures, revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
- Only IFRS 9, IFRS 10 and IFRS 13 are applicable to the Company, and will become mandatory for the Company on January 1, 2013. The Company has not yet assessed the impact of the standards or determined whether it will adopt any of the standards early.

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NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
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3. Significant Accounting Policies

The following is a summary of significant accounting policies used in the preparation of these consolidated financial statements.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of ID Watchdog and its wholly-owned subsidiaries ID Rehab and WDI Processing, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

Cash and cash equivalents are highly liquid investments that consist primarily of short-term money market instruments with original maturities of three months or less at the time of purchase. We utilize and invest with financial institutions that are sound and of high credit quality. Our investments are in low-risk instruments and we limit our credit risk exposure in any one institution or type of investment instrument in accordance with the Company's investment policy criteria which includes consideration of the credit worthiness of the institution. At times, cash balances in these accounts may exceed federally insured limits.

(c) Restricted Cash

As part of our private placements completed in the first quarter of 2010 and 2009, a deduction was made from the proceeds of the private placements and funds placed in escrow to pay interest on the notes. At September 30, 2011 and December 31, 2010, the Company had \$0 and \$61,057, respectively of restricted cash in an interest bearing bank account.

(d) Property and Equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. The cost consists of the purchase price, and any costs directly attributable to bringing the asset to the location and condition for its intended use.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized within other income in profit or loss.

(ii) Depreciation and Amortization

Furniture and equipment, leasehold improvements, computer hardware and computer software are stated at cost and are depreciated or amortized using the straight-line method over the estimated useful lives of the assets ranging from three to five years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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(e) Intangible Assets

(i) Internal use software development costs

Certain costs incurred in connection with the development of software to be used internally or for providing services to customers are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Company are recognized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, is recognized as expense as incurred.

(ii) Amortization

Patents are amortized over the useful life of the patent, commencing when the patents have been registered. As of September 30, 2011, the Company does not have any registered patents. Registered trademarks have been determined to have an indefinite life and are therefore not amortized.

Internal use software development costs are amortized on a straight-line basis over 3 years.

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(f) Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(g) Leases

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for at the commencement of the lease term as finance leases and recorded as property and equipment at the fair value of the leased asset, or, if lesser, at the present value of the minimum lease payments, together with an offsetting liability.

Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. All other leases are accounted for as operating leases and the lease costs are expensed as incurred.

(h) Transaction Costs

When the financial liability is not carried at fair value through income, transaction costs are deducted from the carrying value of the financial liability and are amortized over the life of the related debt instrument using the straight-line method which approximates the effective interest method. The amortization of the transaction costs, are included in interest expense in the consolidated statements of operations. When debt is repaid or settled prior to its maturity date, the write-off of the remaining unamortized debt offering costs is also reported as interest expense.

Transaction costs are expensed when incurred when the financial liability is carried at fair value.

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NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
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(i) Impairment of Long-lived Assets

Property, equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized or that are not yet available for use are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of the asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances, warrants such consideration.

(j) Financial Instruments

(i) Classification and measurement

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through the statement of income", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized cost" as defined by IAS 39, "Financial Instruments: Recognition and Measurement".

Financial assets and financial liabilities at "fair value through the statement of income" are either classified as "held for trading" or "designated at fair value through the statement of income" and are measured at fair value with changes in fair value recognized in the income statement. Transaction costs are expensed when incurred. The Company has designated cash and cash equivalents and derivative commodity contracts as "held for trading".

Financial assets and financial liabilities classified as "loans and receivables", "held-to-maturity", or "financial liabilities measured at amortized cost" are measured at amortized cost using the effective interest method of amortization. "Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment. "Held-to-maturity" financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. "Financial liabilities measured at amortized cost" are those financial liabilities that are not designated as "fair value through the statement of income" and that are not derivatives. The Company has designated accounts receivable as "loans and receivables" and accounts payable, accrued liabilities, capital lease obligations and convertible instruments as "financial liabilities measured at amortized cost". Convertible instruments are initially recognized with the liability component being recorded at fair value, net of any transactions costs, and the equity conversion feature recorded as the residual amount and recognized in equity.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

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NOTES TO CONSOLIDATED INTERIM CONDENSED FINANCIAL STATEMENTS
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(ii) *Impairment*

The Company assesses, as of each date of its statement of financial position, whether there is objective evidence that financial assets, other than those designated as “fair value through the statement of income” are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

(k) Warrants

The Company has issued warrants to purchase ordinary shares as described in Notes 7, 8 and 11. Warrants are valued using a fair value based method, whereby the fair value of the warrant is determined at the warrant issue date using a market-based option valuation model. Warrants are included in warrants in the consolidated interim condensed consolidated financial statements.

(l) Revenue Recognition

The Company’s services are offered to consumers primarily on a monthly subscription basis. Subscription fees are generally billed directly to the subscriber’s credit card or demand deposit account. At times, as a means of allowing customers to become familiar with the Company’s services, the Company offers free trial periods. No revenue is recognized until these applicable periods are completed.

Revenue for annual and multi-year subscription fees is deferred and recognized on a straight-line basis over a period which is equal to the standard monthly subscription rate for the time period calculated by using the subscription fee divided by the standard monthly subscription rate. Deferred revenue was \$236,397 and \$360,762 at September 30, 2011 and December 31, 2010, respectively, and is included in liabilities on the consolidated interim condensed consolidated financial statements.

In addition, the Company has established a reserve for charge-backs and discretionary refunds based on actual experience. This reserve was \$2,159 and \$3,472 at September 30, 2011 and December 31, 2010, respectively, and is included in accrued liabilities on the consolidated interim condensed consolidated financial statements.

(m) Share Based Compensation

The Company has one share-based compensation plan which is described in Note 9. The Company accounts for share-based awards that are settled through the issuance of equity using a fair value based method, whereby the fair value of the share-based award is determined at the date of grant using a market-based option valuation model. The fair value of the award is recorded as share-based compensation expense, over the vesting period of the award, with a corresponding increase to ordinary shares in the consolidated interim condensed consolidated financial statements. Share-based compensation expense is included in general and administrative expense in the consolidated statements of operations.

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(n) Income Taxes

Income tax is comprised of current and deferred tax. Income tax is recognized in the statement of income, except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the interim condensed consolidated financial statements date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current. Tax on income in interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

(o) Earnings Per Share and Reserved Ordinary Shares

Basic net loss per ordinary share ("EPS") is computed by dividing net loss applicable to ordinary shares by the weighted-average number of ordinary shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Currently, all potentially dilutive securities have an anti-dilutive effect on EPS and accordingly, basic and dilutive weighted average shares are the same. As of September 30, 2011, a total of 96,902,587 shares of potentially dilutive securities have been excluded from the calculation of EPS, as the effect of including these securities would be anti-dilutive, as follows:

Potentially Dilutive Securities as of September 30, 2011	
	Equivalent Ordinary Shares
Series C Preferred	31,234,810
Warrants	54,047,777
Stock options	11,620,000
Total	96,902,587

Also as of September 30, 2011, the Company has reserved 96,902,587 Ordinary Shares for future issuance for the securities listed above.

(p) Significant Accounting Judgments and Estimates

The preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes will differ from these estimates.

These consolidated interim condensed financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. 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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Management has made significant assumptions about the future and other sources of estimation uncertainty at the statement of financial position date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ. Assumptions made, relate to, but are not limited to, the following:

(i) Accounts receivable

Accounts receivable are recorded at the estimated recoverable amount which requires management to estimate uncollectable accounts.

(ii) 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 amounts and timing of recorded expenses for depreciation or amortization of property and equipment for any period are affected by these estimated useful lives. 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. If 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.

(iii) Commitments and contingencies

Management estimates the inputs used in determining the various commitments and contingencies accrued in the consolidated interim statement of financial position.

4. Explanation of Transition to International Financial Reporting Standards

The Company has adopted IFRS effective January 1, 2010 ("the transition date") and has prepared its opening IFRS statement of financial position as at that date. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with U. S. GAAP.

The Company's consolidated financial statements for the year ending December 31, 2011, will be the first annual financial statements that comply with IFRS. The Company will ultimately prepare its opening IFRS statement of financial position by applying existing IFRS with an effective date of December 31, 2011. Accordingly, the opening IFRS statement of financial position and the December 31, 2010, comparative statement of financial position presented in the consolidated financial statements for the year ending December 31, 2011, may differ from those presented at this time.

(a) Required Exception to Retrospective Application

In preparing these financial statements in accordance with IFRS, the Company has applied a required exception and certain mandatory exceptions from full retrospective application of IFRS. The required exception applied is, as follows:

(i) Estimate Exception:

Estimates previously made by the Company under U.S. GAAP are consistent with those under IFRS. Hindsight was not used to create or revise previous estimates.

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(b) Elected Exemptions to Retrospective Application

IFRS 1 “First- time” Adoption of International Financial Reporting Standards” allows for certain elected exemptions from full retrospective application of IFRS. The Company has applied certain of the optional exemptions from full retrospective application of IFRS. Based on management’s analysis of the various accounting policy choices available, the IFRS 1 optional exemptions applied are described below:

(i) Fair value or revaluation as deemed cost

IAS 16 “Property, plant and equipment” allows for property and equipment to continue to be carried at cost less depreciation, same as under U.S. GAAP. Accordingly, the Company has elected to carry its property and equipment at historical cost less accumulated depreciation and amortization.

Impact on Historical Key Performance Indicators previously reported under U. S GAAP

The following table summarized the impact of IFRS on certain key performance metrics monitored by management for the year ended December 31, 2010, and the nine months ended September 30, 2010 as prepared under U.S. GAAP and IFRS:

Year Ended December 31, 2010			
	US GAAP	IFRS	Percent Change
Operating loss	\$(1,077,159)	\$(1,077,159)	–
Net loss	\$(2,146,402)	\$(1,091,901)	(49%)
Nine Months Ended September 30, 2010			
	US GAAP	IFRS	Percent Change
Operating loss	\$ (722,576)	\$ (722,576)	–
Net loss	\$(1,038,798)	\$ (2,093,299)	50%

Impact of IFRS Adoption on Significant Accounting Policies and Estimates

The Company’s IFRS accounting policies are provided in Note 3 to the interim consolidated financial statements. In addition, Note 4 of the interim consolidated financial statements presents reconciliations between the Company’s 2010 previous U. S. GAAP results and the 2010 IFRS results. The reconciliations include statements of financial position as of January 1 and December 31, 2010, statements of operations for the three and nine months ended September 30, 2010, and statements of shareholders’ equity (deficit) as of January 1 and December 31, 2010.

Had the Company followed IFRS certain items in the statements of financial position as of January 1 and December 31, 2010, statements of operations for the three and nine months ended September 30, 2010 and statements of shareholders’ equity (deficit) as of January 1 and December 31, 2010 would have been reported as reflected in the statements and tables below.

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Reconciliation of consolidated interim condensed consolidated financial statements as of January 1, 2010 from United States GAAP to IFRS:

	<u>US GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 488,689	\$ —	\$ 488,689
Restricted cash	171,752	—	171,752
Accounts receivable	89,175	—	89,175
Prepaid expenses and other	161,428	—	161,428
Debt offering costs, net	224,109	(244,109)	—
Total current assets	<u>1,135,153</u>	<u>(224,109)</u>	<u>911,044</u>
Property and equipment, net	376,411	—	376,411
Total assets	<u>\$ 1,511,564</u>	<u>\$ (224,109)</u>	<u>\$ 1,287,455</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,530,859	—	\$ 1,530,859
Accrued liabilities	595,536	—	595,536
Current portion of capital lease obligation	2,290	—	2,290
Deferred revenue	378,056	—	378,056
10% extendable deferred convertible notes, net of amortization of discount of \$384,116	1,319,764	(224,109)	1,095,655
Derivative contract liabilities	879,721	(879,721)	—
Total current liabilities	<u>4,706,226</u>	<u>(1,103,830)</u>	<u>3,602,396</u>
Capital lease obligation, net of current portion	5,406	—	5,406
Total liabilities	<u>4,711,632</u>	<u>(1,103,830)</u>	<u>3,607,802</u>
Commitments and Contingencies			
SHAREHOLDERS DEFICIT			
Share capital:			
Preferred shares; 450,000,000 shares authorized			
Ordinary shares; no par value; 450,000,000 shares authorized:			
Ordinary Shares	19,754,150	—	19,754,150
Contributed Surplus	433,644	—	433,644
Warrants	1,018,582	—	1,018,582
Accumulated deficit	(24,406,444)	879,721	(23,526,723)
Total shareholders' deficit	<u>(3,200,068)</u>	<u>879,721</u>	<u>(2,320,347)</u>
Total liabilities and shareholders' deficit	<u>\$ 1,511,564</u>	<u>\$ (224,109)</u>	<u>\$ 1,287,455</u>

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Reconciliation of consolidated interim condensed consolidated financial statements as of December 31, 2010 from United States GAAP to IFRS:

	<u>US GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 99,082	\$ —	\$ 99,082
Restricted cash	61,057	—	61,057
Accounts receivable	72,892	—	72,892
Prepaid expenses and other	136,243	—	136,243
Debt offering costs, net	—	—	—
Total current assets	<u>369,274</u>	<u>—</u>	<u>369,274</u>
Property and equipment, net	203,137	—	203,137
Total assets	<u>\$ 572,411</u>	<u>\$ —</u>	<u>\$ 572,411</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,275,492	\$ —	\$ 1,275,492
Accrued liabilities	985,811	—	985,811
Current portion of capital lease obligation	2,290	—	2,290
Deferred revenue	360,762	—	360,762
Derivative contract liabilities	37,000	(37,000)	—
10% Extendible deferred convertible notes	3,203,880	—	3,203,880
Total current liabilities	<u>5,865,235</u>	<u>(37,000)</u>	<u>\$ 5,828,235</u>
Capital lease obligation, net of current portion	2,476	—	2,476
Total liabilities	<u>5,867,711</u>	<u>(37,000)</u>	<u>5,830,711</u>
Commitments and Contingencies			
SHAREHOLDERS' DEFICIT			
Share capital:			
Preferred shares; 450,000,000 shares authorized			
Ordinary shares; no par value; 450,000,000 shares authorized:			
Ordinary Shares	19,754,150	—	19,754,150
Contributed Surplus	484,814	—	484,814
Warrants	1,018,582	—	1,018,582
Accumulated deficit	<u>(26,552,846)</u>	<u>37,000</u>	<u>(26,515,846)</u>
Total shareholders' deficit	<u>(5,295,300)</u>	<u>37,000</u>	<u>(5,258,300)</u>
Total liabilities and shareholders' deficit	<u>\$ 572,411</u>	<u>\$ —</u>	<u>\$ 572,411</u>

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Reconciliation of consolidated statement of income and comprehensive income for the three months ended September 30, 2010 from U.S. GAAP to IFRS:

	<u>GAAP</u>	<u>Effect of Transition to IFRS</u>	<u>IFRS</u>
Revenue	\$ 698,230	\$ —	\$ 698,230
Cost of revenue	68,751	—	68,751
Gross profit	<u>629,479</u>	<u>—</u>	<u>629,479</u>
Operating expense:			
General and administrative expense ..	510,127	—	510,127
Marketing expense	191,529	—	191,529
Stock – based compensation expense	11,854	—	11,854
Depreciation and amortization expense	64,434	—	64,434
	<u>777,944</u>	<u>—</u>	<u>777,944</u>
Operating loss	<u>(148,465)</u>	<u>—</u>	<u>(148,465)</u>
Other income (expense):			
Gain (Loss) on derivative contract liabilities	138,000	(138,000)	—
Interest income	1,775	—	1,775
Interest expense	(219,070)	—	(219,070)
	<u>(79,295)</u>	<u>—</u>	<u>(217,295)</u>
Net loss and comprehensive loss applicable to ordinary shares	<u>\$ (227,760)</u>	<u>\$ (138,000)</u>	<u>\$ (365,760)</u>
Basic and diluted net loss per share applicable to ordinary shares	<u>\$ (0.01)</u>	<u>\$ —</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding - basic and diluted	<u>62,916,107</u>	<u>—</u>	<u>62,916,107</u>

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Reconciliation of consolidated statement of income and comprehensive income for the nine months ended September 30, 2010 from U.S. GAAP to IFRS:

	<u>GAAP</u>	<u>Effect of trans to IFRS</u>	<u>IFRS</u>
Revenue	\$ 2,776,647	\$ —	\$ 2,776,647
Cost of revenue	303,506	—	303,506
Gross profit	<u>2,473,141</u>	<u>—</u>	<u>2,473,141</u>
Operating expense:			
General and administrative expense	1,753,951	—	1,753,951
Marketing expense	1,213,348	—	1,213,348
Stock – based compensation expense ..	39,656	—	39,656
Depreciation and amortization expense	<u>188,763</u>	<u>—</u>	<u>188,7630</u>
	<u>3,195,718</u>	<u>—</u>	<u>3,195,718</u>
Operating loss	<u>(722,576)</u>	<u>—</u>	<u>(722,576)</u>
Other income (expense):			
Gain (Loss) on derivative contract liabilities	1,054,501	(1,054,501)	—
Interest income	5,069	—	5,069
Interest expense	<u>(1,375,792)</u>	<u>—</u>	<u>(1,375,792)</u>
	<u>(316,222)</u>	<u>—</u>	<u>(1,370,723)</u>
Net loss and comprehensive loss applicable to ordinary shares.....	<u>\$ (1,038,798)</u>	<u>\$ (1,054,501)</u>	<u>\$ (2,093,299)</u>
Basic and diluted net loss per share applicable to ordinary shares	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of shares outstanding - basic and diluted	<u>62,916,107</u>	<u>—</u>	<u>62,916,107</u>

Reconciliation of shareholders' deficit as of January 1, 2010 and December 31, 2010 and U.S. GAAP to IFRS:

	<u>January 1, 2010</u>	<u>December 31, 2010</u>
Shareholders' Deficit as reported under US GAAP.....	\$ (3,200,068)	\$ (5,295,300)
IFRS adjustments increase (decrease):		
Derivative contract liabilities.....	<u>879,721</u>	<u>37,000</u>
Shareholders' Deficit as reported under IFRS.....	<u>\$ (2,320,347)</u>	<u>\$ (5,258,300)</u>

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Notes to the Reconciliations

- a) Under US GAAP the Company classified certain of its warrants to acquire ordinary shares as derivative liabilities. The fair value of these instruments was adjusted to reflect fair value at the end of each reporting period with any increase or decrease in the fair value being recorded in the results of operations as gain (loss) on derivative contract.

Under IFRS these derivative instruments are not adjusted to fair value. The conversion to IFRS resulted in an elimination of the gain on derivative contracts of \$138,000 and \$1,054,501, for the three and nine months periods ended September 30, 2010 with a corresponding increase in accumulated deficit for each of the respective periods. In addition, derivative contract liabilities of \$37,000 and \$879,721 as of December 31, 2010 and January 1, 2010 were eliminated with a corresponding reduction in accumulated deficit.

- b) Under US GAAP the Company capitalized as deferred offering costs certain costs incurred in selling debt securities. These costs were then amortized to interest expense over the life of the debt security.

Under IFRS these costs are required to be netted against the liability on the Company's interim condensed consolidated financial statements. Debt offering costs, net of \$224,109 have been removed from current assets with a corresponding reduction in 10% extendable deferred convertible in the January 1, 2010 consolidated statement of financial position.

5. Property and Equipment

The Company's property and equipment compromise computer hardware, computer software, furniture and equipment and leasehold improvements.

Property and equipment at September 30, 2011 and December 31, 2010 includes \$75,169 and \$14,469 respectively, of assets under capital leases. Accumulated depreciation at September 30, 2011 and December 31, 2010 includes \$12,966 and \$10,128 respectively, of accumulated depreciation applicable to office equipment assets under capital leases.

Depreciation and amortization expense for the nine months ended September 30, 2011 and September 30, 2010 was \$143,521 and \$188,763 respectively, and is included in general and administrative expenses in the consolidated statements of operations.

The net book value of computer hardware, computer software, furniture and equipment and leasehold improvements can be analyzed as follows:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Office equipment	\$ 284,622	\$ 201,315
Furniture and fixtures	50,799	44,203
Computer software	793,664	704,296
Total furniture and equipment	<u>1,075,085</u>	<u>949,814</u>
Less: accumulated depreciation and amortization	<u>(890,198)</u>	<u>(746,677)</u>
Furniture and equipment, net	<u>\$ 184,887</u>	<u>\$ 203,137</u>

6. Related Party Transactions

From the Company's inception through March 11, 2011, Daryl Yurek was the Chief Executive Officer and Chairman of the Board of Directors of the Company. On March 11, 2011, Mr. Yurek resigned as CEO and as Chairman of the Board of the Company. Subsequent to that date, the Company no longer considers transactions with Mr. Yurek, or his affiliates, or Veracity Credit Consultants, LLC ("VCC"), a

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company Mr. Yurek is affiliated with, as related parties. While transactions with Mr. Yurek are no longer considered related party transactions subsequent to March 11, 2011, certain of these transactions continue past the date he resigned from the company.

During the third quarter ended September 30, 2011, the Company gave written notice to VCC that it was terminating its verbal agreement effective September 21, 2011. Also, during the third quarter of 2011, the Company received notice from Mr. Yurek that he had ceased providing certain consulting services to the Company under a month to month verbal consulting agreement. As a result, effective August 31, 2011, the Company is no longer receiving or paying for these month to month consulting services.

Following are services provided by Mr. Yurek, his affiliates or VCC, which were considered related party expense. The expenses disclosed below only include transactions with Mr. Yurek or VCC through and including March 11, 2011, and therefore no related party amounts are disclosed for the nine month period ended September 30, 2011.

(a) Marketing Expenses

During 2011 and 2010, the Company was provided facilities and call center services by VCC under a month to month service agreement. For the nine months ended on September 30, 2011, the Company incurred call center marketing expenses of \$10,800, and for the three and nine months ending September 30, 2010 the Company incurred call center marketing expenses \$23,892 and \$118,167, respectively. Office Rent, Equipment and Supplies.

(b) Office Rent, Equipment and Supplies

During 2011 and 2010, the Company shared office space with VCC and was allocated certain costs (based on head count) for office space rent, office equipment, supplies and other office related items. This sharing arrangement was a month to month cost sharing agreement with VCC. For the nine months ended September 30, 2011, the Company incurred \$18,093 of expenses and for the three and nine months ending September 30, 2010 the Company incurred \$25,448 and \$35,552 of expenses, respectively, under this arrangement.

(c) Consulting Fees to Daryl Yurek

During 2011 and 2010, the Company paid consulting fees to Daryl Yurek, or entities he controlled, under a month to month consulting agreement. For the nine months ended September 30, 2011, the Company recognized \$30,276 of consulting fee expense, and for the three and nine months ending September 30, 2010 the Company recognized \$34,179 and \$130,621 of consulting fees, respectively, under this arrangement.

(d) Note Receivable

In February 2010, the Company agreed to loan \$67,220 to VCC with an advance of \$50,000 and a transfer of a previous prepayment for VCC to provide call center facilities and services as described above. The note receivable accrued interest at a rate of 10% per annum and was due on January 31, 2011. The note maturity was extended by one year in February 2011. At September 30, 2011, the note receivable balance, including accrued interest totaled \$44,622 and is reflected in the consolidated statement of financial position as a current asset. The note receivable and all accrued interest has been fully reserved as the Company believes it is unlikely the note receivable and accrued interest will be collected. The Company recognized \$1,106 and \$3,203 for the three and nine months ended September 30, 2011, respectfully, and \$977 and \$2,891 for the three and six months ended September 30, 2010 respectfully.

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(e) Accounts Receivable from VCC

At September 30, 2011 and December 31, 2010, accounts receivable to VCC was \$1,312 and \$0, respectively.

7. Long-term Debt

At September 30, 2011 and December 31, 2010, the Company's borrowings net of unamortized discounts consisted of the following:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Current borrowings:		
10% Senior extendible deferred convertible notes (2009 Notes)	\$ —	\$ 1,703,880
10% extendible deferred convertible notes (2010 Notes).....	—	1,500,000
Current portion of capital lease obligations	23,723	2,290
Total current borrowings	<u>\$ 23,723</u>	<u>\$ 3,206,170</u>
Long-term borrowings:		
Capital lease obligations, net of current portion	52,748	2,476
Total long-term borrowings	<u>\$ 52,748</u>	<u>\$ 2,476</u>

In May 2011, the Company entered into a capital lease for a printer/ copier machine. The lease has a two year term and a bargain purchase option at the end of the lease. The monthly lease payments are \$283.

In July 2011, the Company entered into a five year agreement to lease telecommunications equipment. The monthly lease payments are \$1,556 and the agreement includes a bargain purchase option at the end of the lease term.

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

	<u>September 30, 2011</u>		<u>December 31, 2010</u>	
	<u>Present Value</u>	<u>Future Value</u>	<u>Present Value</u>	<u>Future Value</u>
Within one year.....	23,723	30,852	2,290	3,481
The second through fifth years.....	52,748	68,600	2,476	3,771
Total	<u>76,471</u>	<u>99,452</u>	<u>4,766</u>	<u>7,252</u>

The carrying amount of the office and telecommunication equipment under financing leases as of September 31, 2011 was \$74,503.

During the three months and nine months ending September 30, 2010, the Company recognized \$49,354 and \$595,896 respectively of debt discount amortization applicable to the convertible debentures.

During the three months and six months ending September 30, 2010, the Company recognized \$34,055 and \$455,188 respectively of debt offering costs amortization applicable to the convertible debentures. Debt offering cost amortization is included in interest expense in the Company's consolidated statements of operations.

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(b) Convertible Notes

The 2009 and 2010 Notes have been classified as long-term liabilities as of December 31, 2010 because they were either converted to ordinary shares or repaid from proceeds of the preferred stock offering in February 2011.

(i) 10% Senior Extendible Deferred Convertible Notes ((2009 Notes):

In November 2009, the Company completed a private placement for the sale of \$1,703,880 in Senior Extendible Deferred Convertible Notes with an interest rate of 10% (the "2009 Notes") and issued warrants to purchase 3,315,750 ordinary shares at an exercise price of \$0.2929 per share. Agents for the Company received 617,529 warrants as part of their compensation with the same terms as the warrants issued to the note holders, due to the terms of the warrant. After underwriting expenses, the Company received \$1,342,000. Interest was paid monthly from an escrow account funded with a deduction from the proceeds of the private placement to pay the interest to the 2009 Note holders for the first year. The 2009 Notes matured on April 19, 2010 and the Company exercised the provision to extend the maturity of the 2009 Notes until September 30, 2010 by paying the 2.5% extension fee and issuing 3,315,750 additional warrants per the terms of the note agreement. The 2009 Notes matured on September 30, 2010. The Company did not repay the outstanding principal amount on these 2009 Notes and at December 31, 2010 they were in payment default and remained in default until repaid as part of the Recapitalization, which closed on February 24, 2011.

(ii) 10% Extendible Deferred Convertible Notes (2010 Notes):

In March 2010, the Company completed a private placement for the sale of \$1,500,000 in convertible notes with an interest rate of 10% (the "2010 Notes") and issued warrants to purchase 2,055,000 ordinary shares at an exercise price of \$0.365 per share. Agents for the Company received 410,959 warrants as part of their compensation with the same terms as the warrants issued to the note holders. After underwriting expenses, the Company received \$1,173,500 plus an additional amount of \$172,500 which was deposited into an escrow account to for interest payments. Interest is paid monthly from an escrow account funded by a deduction from the proceeds of the private placement to pay the interest to the 2010 Note holders for the first year. The 2010 Notes matured on August 10, 2010 and were extended to February 6, 2011 by paying the 2.5% extension fee and issuing 2,055,000 additional warrants per the terms of the note agreement. The 2010 Notes contain a provision that allowed prepayment at any time at 110% of the principal amount if on or before the maturity date and at 120% thereafter. The 2010 Notes matured on February 6, 2011 and the Company did not repay the outstanding principal amount on the 2010 Notes but, on February 24, 2011, as part of a plan to recapitalize the Company, a private placement offer was closed which included a consent offer to the holders of the 2009 Notes and the 2010 Notes to exchange their notes, whereby each \$1,000 original face amount of notes was exchanged for \$200 in cash and that number of our Ordinary Shares which is equal to the sum of \$1,000 plus applicable accrued interest thereon as of the closing of the offer, divided by \$0.10. The offer closed on February 24, 2011 and holders of \$1,510,625 of the 2010 Notes including accrued interest exchanged the notes into 15,106,237 Ordinary Shares of the Company. At February 24, 2011, all of the 2010 Notes had been retired.

8. Series C Mandatorily Redeemable Convertible Preferred Stock and Warrants

(a) Series C Preferred

On February 24, 2011, the Company issued 3,123,481 shares of its Series C Preferred and five-year warrants to purchase 15,617,405 ordinary shares of the Company at an exercise price of \$0.12 per share, and received \$3,123,481 in gross proceeds. The holders of the Series C Preferred have the right to convert each share of their Series C Preferred into 10,000 Ordinary Shares of the Company, or

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31,234,810 Ordinary Shares. At September 30, 2011 the Company has reserved 31,234,810 of its Ordinary Shares to effect the conversion of Series C Preferred.

The Series C Preferred is considered to be mandatory redeemable and is classified as a liability in the Company's consolidated statement of financial position. The Series C Preferred matures on February 24, 2016.

In accordance with IAS 32, the Company estimated the fair value of the liability component of the Series C Preferred to be \$2,978,009, including the related warrants, by discounting the redemption amount at a market rate for a similar liability that does not have an associated equity component. 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. Further, as the Series C Preferred is convertible, a portion of the proceeds were allocated to the conversion feature embedded in the Series C Preferred. The residual amount reflecting the conversion feature of \$145,472 was recorded as the equity component.

The assumptions used in the Black-Scholes model are as follows: (1) dividend yield of 0%; (2) expected volatility of 115%, (3) weighted average risk-free interest rate of 2.19%, (4) expected life of 5.0 years, and (5) fair value of the Company's ordinary shares of \$0.13 per share. The amounts attributable to the warrants and the equity conversion feature aggregating \$957,577 have been recorded as a discount and deducted from the face value of the preferred stock in the accompanying interim condensed consolidated statement of financial position. The Series C Preferred is classified as a liability, and the discount for the warrants and equity conversion feature, will be amortized over the period from issuance to February 2016 (the redemption date) at a charge to interest expense.

The Series C Preferred shares earn dividends at 8% per annum. Accrued dividends on the Series C Preferred were \$63,983 and \$149,242, respectively, for the three and nine month periods ending September 30, 2011. Assuming that none of the Series C Preferred is converted and all held until the Mandatory Redemption Date, the Company expects to accrue dividends on Series C Preferred in the amounts of \$212,225, \$250,562, \$249,878, \$249,878, \$249,878 and \$37,653 for the years ending December 31, 2011, 2012, 2013, 2014, 2015 and 2016, respectively.

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

(b) Dividends

Dividends on Series C Preferred shares accrue at 8% per annum on the sum of the issue price of \$1,000 per share. Such dividends shall accrue whether or not declared by the Company's Board of Directors, and whether or not there are profits, surplus or other funds of the Company legally available for the payment of dividends, but no dividend shall be paid unless there are profits, surplus or other funds of the Company legally available for the payment of dividends and then only if either declared by the Company' Board of Directors. Series C Preferred dividends have priority over dividends of the Company's ordinary shares. Series C Preferred are participating in any ordinary share dividends payable in shares and will be paid on the same terms and in the same fashion as if all of the Series C Preferred was converted into ordinary shares of the Company.

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(c) Voting Rights

Series C Preferred has voting rights and powers equal to the voting rights of ordinary shares on an “as if” converted basis. As long as one-third of the Series C Preferred is outstanding, the Company must obtain a waiver from the holders of the majority of the outstanding Series C Preferred before: a) declaring or paying cash dividends on ordinary shares b) authorizing or issuing additional shares of Series C Preferred, c) amending the rights, preferences or privileges of the Series C Preferred, d) authorizing any equity security senior to or on parity with the Series C Preferred, e) merging or consolidating with any other company, or selling all or substantially all of the Company’s assets, or f) effecting any transaction in which the holders of the Company’s voting interest prior to such transaction hold less than 50% of the voting interest in the Company following such transaction.

(d) Mandatory Conversion

Holders of the Series C Preferred may convert all or a portion of their holdings at any time into ordinary shares at a conversion price of \$0.10 per ordinary share, which may be adjusted from time to time for splits, reclassifications, dividends payable in shares and certain other events as set out in the Articles of Association of the Company in the form adopted on June 25, 2008 (the “Amended Articles”). Conversion rates are subject to certain anti-dilution adjustments as provided in the Amended Articles. The holders of the Series C Preferred are obligated to convert (“Mandatory Conversion”) their shares into ordinary shares at the applicable conversion price on the date on which one of the following occur (“Mandatory Conversion Date”):

- (1) The listing of the ordinary shares of the Company on a major U. S. Trading exchange (including the OTC Bulletin Board) and
 - The ordinary shares have a closing price of at least 200% of the conversion price for 20 consecutive trading days prior to the Mandatory Conversion Date;
 - The ordinary shares have an average trading volume of at least 500,000 shares for the 20 consecutive trading days prior to the Mandatory Conversion Date, and
 - The ordinary shares underlying conversion of the Series C Preferred have been registered under the Securities Act of 1933 for resale pursuant to an effective resale registration statement, or
- (2) The Company shall undertake an underwritten U. S. offering for an amount of at least \$15 million inclusive of any secondary offering of shares that might be included in such qualifying public offering.

(e) Maturity and Mandatory Redemption

The Series C Preferred has a maturity date of February 24, 2016. Any Series C Preferred outstanding on February 24, 2016 shall be subject to Mandatory Redemption at a price equal to the then Liquidation Preference Amount (as defined below), which the Company shall pay either in cash from available legal surplus or, in the absence thereof, by delivery of a senior note with an interest rate of 15% per annum and a 90 day maturity date.

(f) Liquidation Preferences

If prior to Mandatory Conversion, there is a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, resulting in a distribution by the Company of its assets to the holders of any class or series of the Company’s Ordinary Shares or preferred shares (a “Liquidation Event”), then , subject to applicable Cayman Islands law, , before holders of the Ordinary Shares shall receive any consideration from such Liquidation Event, the holder of any then outstanding Series C Preferred shall be entitled to receive the greater of (i) 120% times the sum of (a) original issue price of \$1,000 per share plus (b) any accrued and unpaid dividends (the “Liquidation Preference Amount”) or (ii) that amount which is equal to what such holders would otherwise receive were they to convert their Series C Preferred at the then applicable conversion price.

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(g) Registration Rights

The Company stated in the offering memorandum used in connection with the Recapitalization its intention to file with the Securities and Exchange Commission of the United States (the "SEC"), on or before 120 days from February 24, 2011, a registration statement under the Securities Act of 1933, as amended covering the resale of the Vendor Ordinary Shares as well as all ordinary shares of the Company reserved for issuance upon conversion of the Series C Preferred or exercise of the various warrants issued pursuant to the Recapitalization (collectively the "Registrable Shares"). The Company has investigated the registration of the Registrable shares and has currently determined not to pursue such registration.

(h) Potential Covenants

The term of the Series C Preferred also limit the Company's ability to incur additional borrowings and to issue new preferred shares and make cash distributions. The Company may not:

- Incur additional debt that will cause the Company to have interest coverage of less than 2 times trailing EBITDA (Earnings before interest, taxes, depreciation and amortization expense) and then only if such indebtedness is junior in ranking to the Series C Preferred;
- Issue any new preferred stock that, in liquidation, ranks senior or pari passu with the Series C Preferred; and
- Make any distributions in cash or in kind to the holders of its ordinary shares.

9. Stock Options

On September 18, 2008, the Company adopted the ID Watchdog Stock Option Plan (the "Plan") authorizing a pool of up to 7.2 million stock options available for grant. On January 8, 2010, shareholders of the Company voted to amend the Plan to authorize up to 12 million stock options available for grant, authorize a cashless exercise provision and other provisions to the Plan. The exercise prices of the options granted are determined by the Plan Committee, which members are appointed by the Board of Directors, and are generally established at or above the closing price of the Company's ordinary shares on the TSXV on the date of grant. Options granted may have a term of up to ten years but will generally expire five years from the grant date and vest in accordance with the terms of the specific option agreement. The Plan replaced the Identity Rehab Corporation Stock Option Plan and all outstanding stock options to purchase ID Rehab's common stock were exchanged for stock options with the same terms to purchase the Company's ordinary shares effective September 18, 2008. All share-based employee compensation will be settled in newly issued shares.

Employee options generally vest over 18 to 36 months as long as the optionee remains in the Company's employ. Share-based compensation expense is recognized over the period that the stock options vest. Consultant options generally vest over 18 months and share-based compensation expense is recognized during periods that the services are rendered.

The Company uses the Black-Scholes option pricing model to value stock options. The Black-Scholes model requires the use of a number of assumptions, including expected share price volatility, risk-free interest rates, and the expected term of the options. The expected term of stock options represents the period of time that the stock options granted are expected to be outstanding. The estimated expected share price volatility is based on the combination of the Company's historical share price volatility and the expected volatility of a similar entity with publicly-traded securities. The risk-free interest rate is based on the U.S. Treasury bill rate for the expected term of the related stock options. As the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero. The following table summarizes the assumptions used to value stock options granted during the nine months ended September 30, 2011 and 2010:

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	Nine Months Ended September 30,	
	2011	2010
Expected term	2.5-3.3 years	1.0 – 3.3 years
Estimated volatility	113%	38%-50%
Risk-free interest rate	1.76%	1.00%-1.44%
Dividend yield	0%	0%

Stock Options Denominated in U.S. Dollars

	Nine Months Ended September 30,			
	2011		2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	3,485,417	\$ 0.44	5,171,944	\$ 0.43
Granted	8,110,000	0.27	125,000	0.43
Expired/ Forfeited	(960,417)	0.18	(1,733,055)	0.50
Exercised	—	—	—	—
Outstanding, end of period	<u>10,635,000</u>	<u>\$ 0.33</u>	<u>3,563,889</u>	<u>\$ 0.44</u>
Exercisable, end of period	<u>4,317,360</u>	<u>\$ 0.32</u>	<u>3,197,917</u>	<u>\$ 0.43</u>

On June 14, 2011, the Company granted to directors, officers, employees and consultants of the Company stock options (“Options”) to acquire an aggregate of 8,110,000 ordinary shares under the plan.

In addition, the Company granted, subject to requisite regulatory and shareholder approval, a further 3,772,000 ordinary shares under the Plan to directors and officers of the Company at an exercise price of US\$0.27 per Ordinary Share and expiring five years from the date of grant, subject to the terms and conditions of the Plan. Such further Options are subject to the condition that the Options may not be exercised prior to an amendment to the Plan to increase the maximum number of ordinary shares issuable under the Plan, as well as the grant of such further 3,772,000 Options receiving the requisite shareholder approval at the Company’s next shareholders’ meeting. In accordance with IFRS 2, (Share based payment), the 3,772,000 of contingent option grants are to be excluded from the calculation of share based payment and from the tables in this footnote until such time as the Plan is amended to increase the maximum number of ordinary shares issuable under the plan.

Stock Options Denominated in Canadian Dollars

	Nine Months Ended September 30,			
	2011		2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	985,000	\$ 0.60	1,324,258	\$ 0.60
Granted	—	—	—	—
Forfeited	—	0.60	(329,758)	0.60
Outstanding, end of period	<u>985,000</u>	<u>\$ 0.60</u>	<u>995,000</u>	<u>\$ 0.60</u>
Exercisable, end of period	<u>938,334</u>	<u>\$ 0.60</u>	<u>833,333</u>	<u>\$ 0.60</u>

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A summary of stock options outstanding and stock options exercisable at September 30, 2011 follows:

Stock Options Denominated in U.S. Dollars			
<u>Exercise Prices</u>	<u>Stock Options Outstanding</u>		<u>Stock Options Exercisable</u>
	<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Term (In years)</u>	<u>Number of Shares</u>
\$0.27-\$0.40	8,435,000	4.53	1,260,000
\$0.41-\$0.60	2,200,000	2.07	2,074,028
	<u>10,635,000</u>	<u>3.96</u>	<u>3,334,028</u>

Stock Options Denominated in Canadian Dollars			
<u>Exercise Prices</u>	<u>Stock Options Outstanding</u>		<u>Stock Options Exercisable</u>
	<u>Number of Shares</u>	<u>Weighted Average Remaining Contractual Term (In years)</u>	<u>Number of Shares</u>
\$0.60	985,000	2.44	938,334

10. Share-based compensation expense:

A summary of share-based compensation expense follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Share-based compensation expense – employees and directors	\$ 119,647	\$ 11,854	\$ 386,170	\$ 39,656
Share-based compensation expense – consultants	—	—	22,275	—
Total share-based compensation expense	<u>\$ 119,647</u>	<u>\$ 11,854</u>	<u>\$ 408,445</u>	<u>\$ 39,656</u>

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11. Warrants

A summary of warrant activity for the three months and nine months ended September 30, 2011 and 2010 as follows;

The weighted average fair value of the warrants issued for the nine months ended September 30, 2011 and 2010 is \$0.083 and \$0.009, respectively. The following are the assumptions used to value the warrants granted during the nine months ended September 30, 2011 and 2010:

	September 30,	
	2011	2010
Stock Price, in U. S dollars.	\$ 0.11	\$ 0.08
Expected term	4.41 years	4.73 years
Estimated volatility	111%	50%
Risk free interest rate	0.96%	1.79%
Dividend yield	0%	0%

The following tables present the composition of warrants outstanding as of September 30, 2011:

Warrants Denominated in U.S. Dollars		
Exercise Prices	Shares	Weighted Average Remaining Contractual Term
		(years)
\$0.10-\$0.15	23,605,287	3.94
\$0.16-\$0.20	—	—
\$0.21-\$0.30	14,704,440	3.40
\$0.31-\$0.48	15,738,050	0.79
Outstanding as of September 30, 2011	54,047,777	2.88

12. Commitments and Contingencies

On March 1, 2011, the Company entered into a three year data services agreement, which rate terms are effective on July 1, 2011 and are combined with an existing data services agreement with the same provider. The agreement requires the Company to pay the greater of actual data fees incurred or a fixed fee per month.

In July 2011, the Company entered into an agreement to lease office space in Denver, Colorado. The lease has a three year term with an option to extend the lease for an additional two years. The Company's minimum lease payments dues in one year and for years two and three are \$86,750 and \$233,050, respectively. The minimum lease payments are subject to changes based on final tenant improvements, which are to be included in the lease payments, and contracted payment adjustments to accommodate additional employees in the office space.

On September 23, 2011, the Company entered into a consulting agreement with a third party to provide financial advisory services. The agreement is for a two month period with an option for the Company to extend the agreement for an additional month. The monthly payments are \$25,000. The Company exercised its option to receive the additional month of services.

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14. Supplemental Statement of Cash Flow Information

For the nine months ended September 30, 2011, the Company had the following noncash investing and financing transactions:

Investing Activities:

Equipment acquired under financing leases.....\$69,169

Financing Activities:

Equipment financing lease.....\$69,169

14. Subsequent Event

On November 8, 2011, the Company closed its private placement offering of units (the "Units"). The company sold 8,333,333 Units at a price of \$0.24 per Unit for aggregate gross proceeds of U.S. \$2,000,000 (the "Units Offering"). Net proceeds from the Units Offering are estimated to be approximately \$1,815,000. Each Unit consists of two Ordinary Shares in the capital of the Company and two ordinary share purchase warrants (each, a "Warrant"). The first Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S.\$0.15 at any time prior to 5:00 p.m. on November 8, 2016. The second Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S.\$0.25 at any time prior to 5:00 p.m. on November 8, 2016.

The net proceeds from the Units Offering will be used to fund operating deficits, to hire and compensate additional personnel and for general working capital purposes.