ID WATCHDOG, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

ID WATCHDOG, INC.

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
ID Watchdog, Inc.

We have audited the accompanying balance sheets of ID Watchdog, Inc. as of December 31, 2008 and 2007, and the related statements of operations, shareholders' equity (deficit) and cash flows for each of the years in the two-year period ended December 31, 2008. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ID Watchdog, Inc. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2008 in conformity with U.S. generally accepted accounting principles.

(Signed) Hein & Associates LLP

Hein & Associates LLP
Denver, Colorado
April 27, 2009

ID WATCHDOG, INC.
CONSOLIDATED BALANCE SHEETS
(Expressed in U.S. Dollars)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,117,596	$ 631,665
Accounts receivable	71,665	8,083
Prepaid expenses and other	245,180	66,098
Total current assets	5,434,441	705,846
Furniture and equipment, net (Note 3)	581,026	212,429
Debt offering costs, net (Note 5)	160,072	486,810
Other assets	—	3,300
Total assets	$ 6,175,539	$ 1,408,385
LIABILITIES		
Current liabilities:		
Accounts payable	$ 306,430	$ 204,823
Accrued liabilities	552,049	256,955
Convertible debentures, net of unamortized discount of $84,523 at December 31, 2008 (Note 5)	3,481,677	—
Current portion of capital lease obligation (Note 5)	2,290	2,290
Derivative contract liabilities	21,983	—
Total current liabilities	4,364,429	464,068
Convertible debentures, net of unamortized discount of $269,155 at December 31, 2007 (Note 5)	—	3,456,136
Capital lease obligation, net of current portion (Note 5)	7,854	10,289
Total liabilities	4,372,283	3,930,493
Commitments and Contingencies (Note 8)		
SHAREHOLDERS' EQUITY (DEFICIT)		
Share capital: (Note 6 and 7)		
Preferred shares; 450,000,000 shares authorized:		
Series A redeemable convertible preferred shares; $2.00 stated value; 1,750,000 shares authorized; 1,750,000 shares issued; no shares outstanding at December 31, 2008; liquidation preference of $3,500,000 at December 31, 2008; no shares authorized, issued and outstanding at December 31, 2007	—	—
Series B redeemable convertible preferred shares; $2.00 stated value; 500,000 shares authorized; 497,500 shares issued; no shares outstanding at December 31, 2008; liquidation preference of $995,000 at December 31, 2008; no shares authorized, issued and outstanding at December 31, 2007	—	—
Ordinary shares; no par value; 450,000,000 shares authorized, 49,999,089 and 19,912,408 shares issued and outstanding at December 31, 2008 and December 31, 2007, respectively	17,441,578	2,188,756
Accumulated deficit	(15,638,322)	(4,710,864)
Total shareholders' equity (deficit)	1,803,256	(2,522,108)
Total liabilities and shareholders' equity or deficit	$ 6,175,539	$ 1,408,385

See notes to consolidated financial statements

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

	Year Ended December 31,	
	2008	**2007**
Revenue	$ 4,688,290	$ 159,681
Cost of revenue	1,128,795	86,988
Gross profit	3,559,495	72,693
Operating expense:		
Marketing expense	8,264,961	1,362,521
General and administrative expense	3,378,872	1,421,057
Research and development expense	—	32,952
	11,643,833	2,816,530
Operating loss	(8,084,338)	(2,743,837)
Other income (expense):		
Gain on derivative contract liabilities	757,722	—
Interest income	71,318	48,521
Interest expense	(843,098)	(422,338)
Foreign exchange loss	(45,856)	—
Loss on sale of equipment	(502)	(2,720)
	(60,416)	(376,537)
Net loss	(8,144,754)	(3,120,374)
Dividends on redeemable convertible preferred shares	(285,388)	—
Deemed dividends on redeemable convertible preferred shares	(2,077,051)	—
Accretion of discount related to redeemable convertible preferred shares	(420,265)	—
Net loss applicable to ordinary shares	$ (10,927,458)	$ (3,120,374)
Basic and diluted net loss per share applicable to ordinary shares	$ (0.37)	$ (0.17)
Weighted average number of shares outstanding - basic and diluted	29,932,436	18,740,220

See notes to consolidated financial statements

ID WATCHDOG, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(Expressed in U.S. Dollars)

	Ordinary Shares (#)	Amount	Accumulated Deficit	Total Shareholders' Equity
Balances, December 31, 2007	17,697,333	$ 1,252,216	$ (1,590,490)	$ (338,274)
Net loss	—	—	(3,120,374)	(3,120,374)
Ordinary shares issued upon conversion of convertible debentures	1,705,344	255,800	—	255,800
Ordinary shares issued in satisfaction of accrued interest	383,064	107,259	—	107,259
Ordinary shares issued for services	126,667	19,000	—	19,000
Share-based compensation expense and stock options issued for services	—	17,292	—	17,292
Deemed contribution for compensation expense of Company satisfied by officer/shareholder	—	96,850	—	96,850
Warrants issued in connection with convertible debentures	—	440,339		440,339
Balances, December 31, 2007	19,912,408	2,188,756	(4,710,864)	(2,522,108)
Net loss	—	—	(8,144,754)	(8,144,754)
Dividends on Series A and Series B redeemable convertible preferred shares	—	—	(285,388)	(285,388)
Deemed dividends on Series A and Series B redeemable convertible preferred shares	—	—	(2,077,051)	(2,077,051)
Accretion of discount on Series A and Series B redeemable convertible preferred shares	—	—	(420,265)	(420,265)
Ordinary shares issued – IPO	17,000,000	9,202,522	—	9,202,522
Ordinary shares issued – IPO – Corporate Finance Units	50,000	27,066	—	27,066
Ordinary shares issued – IPO – conversion of redeemable convertible preferred shares	9,964,425	4,272,476	—	4,272,476
Ordinary shares issued – IPO – payment of dividends payable Series A and Series B redeemable convertible preferred shares	632,643	271,261	—	271,261
Ordinary shares issued – private placement	1,041,667	452,050	—	452,050
Ordinary shares issued in satisfaction of accrued interest	59,954	16,787	—	16,787
Ordinary shares issued upon conversion of convertible debentures	568,181	159,091	—	159,091
Ordinary shares issued upon exercise of stock options	55,556	8,334	—	8,334
Ordinary shares issued upon exercise of warrants	714,284	267,856	—	267,856
Warrants issued in connection with IPO, sale of Series A and Series B redeemable convertible preferred shares and private placement of ordinary shares	—	578,243		578,243
Share-based compensation expense and stock options issued for services	—	196,019	—	196,019
Beneficial conversion feature on Series A and Series B redeemable convertible preferred shares	—	2,077,051	—	2,077,051
Equity issuance costs - IPO	—	(2,267,898)	—	(2,267,898)
Equity issuance costs applicable to warrant conversions	—	(8,036)	—	(8,036)
Cancellation of fractional shares	(29)	—	—	—
Balances, December 31, 2008	49,999,089	$17,441,578	$(15,638,322)	$ 1,803,256

See notes to consolidated financial statements

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

	Year Ended December 31, 2008	Year Ended December 31, 2007
Cash flows from operating activities:		
Net loss	$ (8,144,754)	$ (3,120,374)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	169,732	49,288
Amortization of debt offering costs and convertible debenture discount	511,371	232,182
Share-based compensation expense to employees, directors and consultants	189,081	36,292
Ordinary shares issued in payment of interest	16,787	107,259
Compensation paid by officer/shareholder	—	96,850
Gain on derivative contracts	(757,722)	—
Loss on sale of equipment	502	2,720
Changes in assets and liabilities:		
Increase in accounts receivable	(63,582)	(5,254)
Increase in prepaid expenses and other	(179,082)	(62,853)
Increase in accounts payable and accrued liabilities	396,701	294,685
Net cash used in operating activities	(7,860,966)	(2,369,205)
Cash flows from investing activities:		
Capital expenditures	(535,532)	(169,232)
Proceeds from sale of equipment	—	17,744
Net cash used in investing activities	(535,532)	(151,488)
Cash flows from financing activities:		
Proceeds from convertible debentures and warrants, net	—	3,177,483
Proceeds from issuance of convertible notes	—	402,484
Repayment of convertible debt	—	(426,027)
Proceeds from issuance of redeemable convertible preferred shares and warrants	4,495,000	—
Proceeds from issuance of ordinary shares and warrants	500,000	—
Proceeds from IPO	9,585,960	—
IPO and redeemable convertible preferred shares and warrants issuance costs	(1,964,250)	—
Proceeds from exercise of warrants and stock options, net	268,154	—
Repayment of capital lease obligation	(2,435)	(1,890)
Net cash provided by financing activities	12,882,429	3,152,050
Net increase in cash	$ 4,485,931	$ 631,357
Cash and cash equivalents, beginning of period	$ 631,665	$ 308
Cash and cash equivalents, end of period	$ 5,117,596	$ 631,665
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 315,049	$ 34,653
Supplemental disclosure of non-cash investing and financing activities:		
Ordinary shares issued upon conversion of debt	$ 159,091	$ 255,800
Fair value of beneficial conversion feature issued with redeemable convertible preferred shares	$ 2,077,051	$ —
IPO Units issued upon conversion of redeemable preferred shares	$ 4,495,000	$ —
IPO Units issued in satisfaction of dividends payable	$ 285,388	$ —
Warrants issued for IPO issuance costs	$ 268,516	$ —
IPO Units issued for IPO issuance costs	$ 28,194	$ —
Stock options issued for IPO issuance costs	$ 6,938	$ —
Placement agent warrants issued for debt offering costs	$ —	$ 77,167
Capital lease obligation incurred for new equipment	$ —	$ 14,470

See notes to consolidated financial statements

1. Organization, Basis of Presentation, Liquidity and Management's Plans:

Organization:

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, ID Rehab Corporation ("ID Rehab"). During the quarter ended December 31, 2007, the Company transitioned from a development stage enterprise to an operating company.

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

The Company was originally formed on July 27, 2005, as ID Rehab, LLC ("LLC") a Colorado limited liability company. On December 12, 2005, the sole member of LLC formed ID Rehab, a Colorado corporation, and transferred all of the assets, net of certain liabilities (at historical cost) of LLC to ID Rehab and merged LLC into ID Rehab in exchange for 10,000,000 ordinary shares of ID Rehab.

Pursuant to an Agreement and Plan of Merger dated as of June 24, 2008, among ID Rehab, ID Watchdog (then a wholly-owned subsidiary of ID Rehab) and Mergeco, Inc. ("Mergeco") (then a wholly-owned subsidiary of ID Watchdog), Mergeco merged into ID Rehab, and ID Rehab became a wholly-owned subsidiary of ID Watchdog (the "Reorganization"). Upon the completion of the Reorganization on June 25, 2008, former shareholders of ID Rehab exchanged their securities of ID Rehab for equivalent securities of ID Watchdog on a one-for-one basis. Convertible debentures of ID Rehab remain the obligation of ID Rehab but are convertible into ordinary shares of ID Watchdog.

The accompanying consolidated financial statements include the results of operations of LLC from July 27, 2005 through December 12, 2005, and those of ID Rehab subsequent to that date.

Liquidity:

On September 5, 2008, the Company completed its initial public offering (the "IPO"). The IPO consisted of 17,000,000 units ("Units") at a price of CDN$0.60 per Unit, resulting in gross proceeds of CDN$10,200,000.

Each Unit consisted of one ordinary share of the Company and one-half of one ordinary share purchase warrant. Each warrant entitles the holder to purchase one additional ordinary share at a price of CDN$0.90 per share for a period of 24 months from September 18, 2008, the date the Company listed its ordinary shares (the "Listing Date") on the TSX Venture Exchange (the "TSXV"). On September 17, 2008, the TSXV approved the listing of the ordinary shares and the classification of the Company as a "Tier 1 Industrial or Technology Issuer." The Company's ordinary shares trade under the symbol "IDW."

The Company has incurred significant losses from operations, and has funded its operations primarily through its IPO and private placements of debt and equity including loans from related parties. The Company also has a limited operating history and has only recently had significant revenue producing operations beginning in the fourth quarter of 2007.

The Company has $3.6 million of convertible debentures outstanding at December 31, 2008 and these debentures mature in June and July 2009. Management believes that one large shareholder and another entity, Bolder Venture Partners, which is controlled by the Company's CEO, will convert their outstanding debentures totaling $2.0 million into ordinary shares. Management also believes that other debenture holders will convert

their debentures into ordinary shares as the recent market price of the Company's ordinary shares has been significantly higher than the $0.28 per share conversion price of the convertible debentures.

IDW's marketing expenditures are largely discretionary. Aside from the convertible debentures, IDW does not have any other significant commitments including non-cancelable purchase commitments.

The Company's 2009 business plan calls for significant growth in the number of new customers during the year and growth in the number of active customers at year end. The Company plans to hold gross margins steady in 2009 and plans to hold general and administrative expenses in line with fourth quarter 2008 levels. The 2009 business plan calls for the Company to achieve positive monthly cash flows and profitability during the second half of 2009.

Management believes that the $5.1 million of cash and cash equivalents on hand at December 31, 2008 combined with 2009 gross profits will provide adequate working capital for use in connection with the Company's 2009 business plan and programs during both the short and long term.

Although the Company believes the business plan is achievable, should the Company fail to achieve the sales or gross margin levels anticipated, or if the Company were to incur significant unplanned cash outlays, it would become necessary for the Company to obtain additional sources of liquidity or make further cost cuts to fund its operations. However, there is no assurance that the Company would be able to obtain such financing on favorable terms, if at all, or to successfully further reduce costs in such a way that would continue to allow the Company to operate its business.

2. Summary of Significant Accounting Policies:

Basis of presentation:

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In certain aspects, U.S. GAAP differs from Canadian generally accepted accounting principles ("Canadian GAAP"). The difference is summarized in Note 11.

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.

Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Fair value of financial instruments:

The fair value of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to the short-term nature of these instruments. The Company's convertible debentures are carried at amortized cost as discussed in Note 5 and the carrying amount of the

convertible debentures approximates fair value based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

The Company also issues warrants to purchase ordinary shares that are indexed to the market price of the Company's ordinary shares denominated in Canadian dollars. The Company evaluates these contracts to determine whether certain conditions for equity classification have been achieved. In instances where derivative financial instruments require liability classification, the Company initially and subsequently measures such instruments at estimated fair value. Accordingly, the Company adjusts the estimated fair value of these derivative financial instruments at each reporting period through a charge or credit to earnings until such time as the instruments are exercised, expire or are permitted to be classified in shareholders' equity.

Derivative financial instruments:

The Company uses various types of financing arrangements to fund its business capital requirements, including convertible debt with registration rights, contingent conversion features and mandatory redemption features and redeemable convertible preferred shares indexed to the market price of the Company's ordinary shares. The Company evaluates these contracts to determine whether derivative features embedded in host contracts require bifurcation and fair value measurement.

Cash equivalents:

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.

Accounts receivable:

Accounts receivable represents in-process credit card billings and other miscellaneous receivables. An allowance for doubtful accounts has not been established as all accounts receivable are expected to be collected.

Furniture and equipment:

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

The Company capitalizes costs related to internally developed software in accordance with Statement of Position ("SOP") 98-1, "*Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*". Only costs incurred during the development stages, including design, coding, installation and testing are capitalized. These capitalized costs primarily represent costs for consultants directly associated with the software development. Upgrades or modifications that result in additional functionality are capitalized.

Debt offering costs:

Debt offering costs are amortized over the life of the related debt instrument using the straight-line method which approximates the effective interest method. Debt offering costs amortization is 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.

Long-lived assets:

Management assesses the carrying values of long-lived assets for impairment when circumstances indicate that such amounts may not be recoverable from future operations. Generally, long-lived assets are considered impaired if the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. At December 31, 2008 and 2007, management believes that no impairment exists.

Convertible securities:

Beneficial Conversion Feature

Pursuant to Emerging Issues Task Force ("EITF") Issue No. 98-5 ("EITF 98-5"), *"Accounting For Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratio"* and EITF Issue No. 00-27, *"Application of EITF Issue No. 98-5 to Certain Convertible Instruments,"* the Company records, as a discount to convertible securities, the intrinsic value of such beneficial conversion features based upon the differences between the fair value of the underlying ordinary shares at the commitment date of the security transaction and the effective conversion price embedded in the instrument. Discounts under these arrangements are amortized over the expected term to the redemption date of the related security.

Derivative Financial Instruments

Pursuant to SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended, the Company reviews all convertible debt instruments for the existence of an embedded conversion option, which may require bifurcation, fair value accounting and a related mark to market adjustment at each reporting period end date. In addition, under the provisions of EITF Issue No. 00-19, *"Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock,"* and related guidance, the Company may be required to classify certain stock equivalents issued in connection with the underlying debt instrument as derivative liabilities.

In determining the appropriate fair value, the Company uses the Black-Scholes option-pricing model. In assessing convertible debt instruments, management first reviews the guidance of EITF No.'s 98-5, 00-27 and 05-2 as well as SFAS No. 150 to determine if the convertible debt host instrument is conventional convertible debt and further if there is a beneficial conversion feature requiring a fair value measurement. If the instrument is not considered conventional convertible debt, the Company will continue its evaluation process of these instruments as potential derivative financial instruments.

Once determined, the Company assesses these instruments as derivative liabilities. The fair value of these instruments are adjusted to reflect fair value at each reporting period end, with any increase or decrease in the fair value being recorded in results of operations as an adjustment to fair value of derivatives. In addition, the fair value of freestanding derivative instruments such as warrants, are also valued using the Black-Scholes option-pricing model. In assessing the nature of a financial instrument as freestanding, the Company has applied the guidance pursuant to EITF No.'s 00-19.

Finally, if necessary, the Company will apply the related guidance in EITF No.'s 00-19-2 and 05-4 as well as SFAS No. 5 when determining the existence of liquidated damage provisions. Liquidated damage provisions are not marked to market, but evaluated based upon the probability that a related liability should be recorded.

Warrants:

The Company has issued warrants to purchase ordinary shares as described in Notes 5, 6 and 7. 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. When warrants are issued in combination with debt or equity securities, these warrants are valued and accounted for based on the relative fair value of the warrants in relation to the total value assigned to the debt or equity securities and warrants combined. Warrants are included in ordinary shares in the consolidated balance sheets.

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 the related subscription period. Deferred revenue was $110,868 and $7,316 at December 31, 2008 and 2007, respectively, and is included in accrued liabilities on the consolidated balance sheets.

In addition, the Company has established a reserve for charge-backs and discretionary refunds based on actual experience. This reserve was $21,628 and $5,489 at December 31, 2008 and 2007, respectively, and is included in accrued liabilities on the consolidated balance sheets.

Advertising:

Advertising costs are expensed as incurred. For the years ended December 31, 2008 and 2007, advertising costs were $2,860,311 and $193,012. Advertising costs are included in marketing expense in the consolidated statements of operations.

Share-based compensation:

The Company has one share-based compensation plan which is described in Note 7. 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 on a straight-line basis over the vesting period of the award, with a corresponding increase to ordinary shares in the consolidated balance sheets. Share-based compensation expense is included in general and administrative expense in the consolidated statements of operations.

Research and development:

The Company includes in research and development expense payroll and other expense items directly attributable to research and development. The Company does not contract its research and development work, nor does it perform research and development work for others.

Income taxes:

The Company recognizes deferred tax assets and liabilities based on the differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements that may result in

taxable or deductible amounts in future years. The measurement of deferred tax assets may be reduced by a valuation allowance based upon management's assessment of available evidence if it is deemed more likely than not some or all of the deferred tax assets will not be realizable. Currently, a valuation allowance of 100% is provided for the deferred tax asset resulting from the Company's net operating loss carry forward in each of the reporting years.

The Company recognizes the impact of uncertain tax positions if that position is more likely than not of being sustained on audit, based upon the technical merits of the position. The Company also recognizes interest and penalties accrued on any uncertain tax positions as a component of income tax expense. The Company did not have any accrued interest or accrued penalties associated with any uncertain tax positions at December 31, 2008 and 2007; nor were any income tax expenses recognized during the years ended December 31, 2008 and 2007 associated with uncertain tax positions.

Loss per share:

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 December 31, 2008, a total of 51,840,242 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 December 31, 2008

	(shares)
Convertible debentures	12,736,430
Warrants	35,081,812
Stock options	4,022,000
Total	51,840,242

Reclassifications:

Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassifications had no effect on net loss.

Recently adopted accounting pronouncements:

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. SFAS 157 provides a definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company's valuation methods used in 2008 were consistent with those used in prior years and, therefore, the adoption of SFAS 157 did not have an impact on the Company's consolidated financial statements.

SFAS 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents information about the Company's liabilities measured at fair value on a recurring basis as of December 31, 2008, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

	Fair Value	Level 1	Level 2	Level 3
Derivative contract liabilities – warrants	$ 21,983	$ —	$ 21,983	$ —

Effective January 1, 2008, the Company also adopted SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). Under SFAS 159, entities may choose to measure at fair value certain financial instruments and other items at fair value that are not currently required to be measured at fair value. The adoption of this pronouncement did not have any effect on the Company's consolidated financial statements, because the Company did not elect the fair value methodology permitted under SFAS 159 for any financial instruments or other items that are not currently required to be measured at fair value.

Effective January 1, 2007, the Company adopted the Financial Accounting Standard Board's ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109" ("FIN 48") which prescribes a comprehensive model for how the Company should recognize, measure, present and disclose in its consolidated financial statements uncertain tax positions taken or expected to be taken on a tax return. The Company has evaluated its tax positions and has determined that the adoption of FIN 48 did not have an impact on its consolidated financial statements.

The Company recognizes interest and penalties related to any uncertain tax positions as a component of income tax expense. As of the date of adoption of FIN 48, the Company did not have any accrued interest or penalty related to uncertain tax positions, nor was any interest or penalty expense recognized during the years ended December 31, 2008 and 2007.

Recently issued accounting pronouncements:

In June 2008, the FASB's EITF reached a consensus on EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock" ("EITF 07-5") and establishes a two-step process for making such determination. EITF 07-5 will be effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of EITF 07-5 and has not yet determined the impact on its financial statements.

In May 2008, the FASB issued Staff Position APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-

1 specifies that issuers of convertible debt instruments that may be settled in cash upon conversion should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is not permitted. FSP APB 14-1 is to be applied retrospectively. The Company's convertible debt does not have cash settlement conversion features and therefore the adoption of FSP APB 14-1, effective January 1, 2009, will not have an impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement No. 133" ("SFAS 161") which enhances the disclosure requirements about derivatives and hedging activities. SFAS 161 requires additional narrative disclosure about how and why an entity uses derivative instruments, how they are accounted for under SFAS 133, and what impact they have on financial position, results of operations and cash flows. SFAS 161 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. As SFAS 161 only enhances disclosures, the adoption of SFAS 161, effective January 1, 2009, will not have an impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51" (SFAS 160). SFAS 160 requires that accounting and reporting for minority interests be recharacterized as noncontrolling interests and classified as a component of equity. The standard is effective for the Company's fiscal year 2009 and must be applied prospectively. The Company does not expect the adoption of SFAS 160 will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. FAS 141R is effective for the Company's fiscal year 2009 and must be applied prospectively to all new acquisitions closing on or after January 1, 2009. Early adoption of this standard is not permitted. Unless and until the Company completes a business transaction, FAS 141R will not have a material impact on the Company's consolidated financial statements.

3. Furniture and Equipment:

Furniture and equipment consists of the following at December 31, 2008 and 2007:

	December 31, 2008	December 31, 2007
Office equipment	$ 158,539	$ 236,419
Furniture and fixtures	44,203	42,079
Computer software	616,185	6,200
Total furniture and equipment	818,927	284,698
Less: accumulated depreciation and amortization	(237,901)	(72,269)
Furniture and equipment, net	$ 581,026	$ 212,429

Office equipment at December 31, 2008 and 2007 includes $14,470 of assets under a capital lease. Accumulated depreciation at December 31, 2008 and 2007 includes $4,341 and $1,447, respectively, of accumulated depreciation applicable to office equipment assets under capital lease.

Depreciation and amortization expense for the years ended December 31, 2008 and 2007 was $166,432, and $49,288, respectively, and is included in general and administrative expense in the consolidated statements of operations.

4. Related Party Transactions:

Consulting services expense – related parties:

The Company recorded consulting services expense to related parties as follows:

	Year Ended December 31,	
	2008	2007
Chief executive officer, cash compensation	$ 162,288	$ 100,000
President, cash compensation	—	39,000
Director, cash compensation	60,000	38,000
Director, share-based compensation	33,000	5,000
Veracity Credit Consultants, LLC, cash compensation	7,496	—
Advisory board member – former president, share-based compensation	—	74,500
Advisory board members – all other, cash compensation	—	54,940
Share-based compensation – employees (previously classified as consulting services expense – related parties)	—	34,642
Total consulting services expense – related parties	$ 262,784	$ 346,082

Consulting services expense – related parties is included in general and administrative expense in the consolidated statements of operations.

Marketing expense – related party:

In January 2008, the Company entered into a month-to-month services agreement with Veracity Credit Consultants, LLC (“VCC”) an entity controlled by the Company’s President, to provide call center facilities and call center services at prevailing market rates. The Company incurred $248,599 of call center marketing expense to this related party during the year ended December 31, 2008. The Company did not incur related party marketing expense in 2007. Marketing expense – related party is included in marketing expense in the consolidated statements of operations.

Interest expense – related party:

During 2006 and 2007, the Company received cash advances from VCC and incurred $17,890 of interest expense to VCC during the year ended December 31, 2007. The Company did not incur related party interest expense in 2008. Interest expense – related party is included in interest expense in the consolidated statements of operations.

Prepaid expenses – related party:

In September 2008, the Company entered into a one year non-cancellable agreement with VCC to provide call center facilities and services during the period October 1, 2008, through September 30, 2009, at prevailing market rates. The agreement provided for discounted fees in exchange for prepayment of approximately one

year's services and in September 2008, the Company prepaid $252,336 of the estimated cost of these services. Prepaid expense of $207,123 to this related party is included in prepaid expenses and other assets on the December 31, 2008 consolidated balance sheet.

Accounts payable – related parties:

At December 31, 2008 and 2007, accounts payable to related parties was $7,497 and $21,152, respectively.

5. Borrowings:

At December 31, 2008 and 2007, the Company's borrowings net of unamortized discounts consisted of the following:

	December 31, 2008	December 31, 2007
Current borrowings:		
Current portion of capital lease obligation	$ 2,290	$ 2,290
Convertible debentures	3,566,200	—
Unamortized discount	(84,523)	—
Total current borrowings	$ 3,483,967	$ 2,290
Long-term borrowings:		
Convertible debentures	$ —	$ 3,725,291
Unamortized discount	—	(269,155)
Convertible debentures, net	—	3,456,136
Capital lease obligation, net of current portion	7,854	10,289
Total long-term borrowings	$ 7,854	$ 3,466,425

During the years ended December 31, 2008 and 2007, the Company recognized $184,632 and $91,356, respectively, of debt discount amortization applicable to the convertible debentures.

During the years ended December 31, 2008 and 2007, the Company recognized $326,739 and $140,826 respectively, of debt offering costs amortization applicable to the convertible debentures.

Debt discount amortization and debt offering cost amortization is included in interest expense in the Company's consolidated statements of operations.

Convertible debentures and warrants:

In July 2007, ID Rehab completed a private placement of two-year, 9% unsecured convertible debentures with detachable warrants to purchase up to 13,304,610 ordinary shares of the Company with gross proceeds of $3,725,291. The 9% convertible debentures may be converted into ordinary shares of the Company on or prior to their maturity dates in June and July 2009 at a conversion price of $0.28 per ordinary share at the election of the holder. In addition, the 9% convertible debentures will automatically convert into ordinary shares upon the occurrence of all of the following events:

(i) the passage of ninety days following the effective date of a registration statement registering for resale the shares issuable upon conversion of the convertible debentures,

(ii) the shares of ID Rehab's common stock have become listed or eligible for trading on a specified U.S. national securities exchange or the OTC Bulletin Board,

(iii) the closing price for ID Rehab's common stock on such market exceeds 125% of the conversion price for 30 consecutive trading days, and

(iv) the average trading volume for the same period exceeds 60,000 shares per day.

Each of the detachable warrants entitles the holder to acquire one ordinary share of the Company for each $0.28 of the face amount of the holder's convertible debenture. One-half of each warrant has an exercise price of $0.35 per share and the other one-half has an exercise price of $0.40 per share. The warrants may be exercised at any time until the fifth-year anniversary of their issuance (either June or July 2012, respective of the closing date). The warrants may be exercised on a cashless basis beginning one year after their issuance if ID Rehab fails to have a current U.S. prospectus available for immediate resale of the conversion shares and ID Rehab's common stock underlying the warrants. Provided an effective registration statement is in effect covering ID Rehab's common stock underlying the warrants, all of the warrants will be callable by the Company at $0.01 per share at any time after the closing price of ID Rehab's common stock exceeds 250% of the debenture conversion price ($0.28 per share) for any 20 consecutive trading days and average daily volume during the same period exceeds 200,000 shares per day.

ID Rehab may be required to immediately redeem the debentures for an amount equal to 130% of the principal balance upon the occurrence of certain events, including a change in control of ID Rehab, ID Rehab's failure to comply with SEC reporting requirements, after ID Rehab becomes subject to such requirements, and de-listing of ID Rehab's common stock, as defined.

ID Rehab is obligated under the Convertible Debenture agreement which contains a registration rights agreement (the "Registration Rights Agreement") related to the 9% convertible debentures and warrants (the "Securities"). The Registration Rights Agreement requires, among other things, that a registration statement be filed on Form SB-2 or such other form as may be required or available covering the conversion shares and the shares of common stock underlying the warrants issued in the offering within 30 days of the closing of the offering on July 17, 2007 (the "Closing"). The Registration Rights Agreement also states that ID Rehab will use its best efforts to have such registration statement declared effective by the SEC within 150 days of Closing and will cause an appropriate response to any comments on the form or content of the registration statement from the staff of the SEC to be submitted to the SEC within 30 days after receipt by ID Rehab or its counsel of such comments. If ID Rehab is unable to meet this obligation in accordance with the requirements contained in the Registration Rights Agreement, then ID Rehab will be obligated to pay the holders of the Securities a liquidated damages payment equal to 1.5% of the stated value of their convertible debentures for each 30 day period following the applicable filing and registration deadlines until such filing or effectiveness is achieved or resumed. The Registration Rights Agreement also contains a provision which eliminates the payment of liquidated damages if ID Rehab receives a comment from the SEC pertaining to Rule 415 under the Securities Act. ID Rehab did receive such a comment from the SEC pertaining to Rule 415.

Based on the Company's evaluation of the provisions of the FASB's Staff Position ("FSP") No. EITF 00-19-2, "Accounting for Registration Payment Arrangements" no accrual for liquidated damages was determined to be necessary at December 31, 2008 and 2007 as ID Rehab received the aforementioned comment letter from the SEC pertaining to Rule 415 and there have been no events or circumstances since the receipt of that comment letter that would require ID Rehab to recognize a liability relating to the convertible debenture registration rights.

The terms of the convertible debentures prohibit ID Rehab from paying dividends without the consent of the debenture holders.

ID Rehab engaged a firm to assist the Company in completing the private placement of Securities. This firm was paid a success fee based on gross proceeds received; 5% on proceeds received from officers, directors and acquaintances of ID Rehab, and 10% on proceeds received from all other investors, except for investors introduced to the investment firm by ID Rehab, in which case the fee was 5%. ID Rehab also agreed to pay the investment firm an expense allowance equal to 2% of aggregate gross offering proceeds and to reimburse the investment firm for certain costs incurred up to a maximum of $15,000. ID Rehab paid the firm $456,279 in fees, allowances and reimbursable expenses in 2007. Total costs related to the issuance of the convertible debentures ($627,754) were capitalized as debt offering costs on the consolidated balance sheets and are being charged to interest expense using the straight-line method which approximates the effective interest method over the life of the convertible debentures.

In addition, in July 2007, the placement agent received a five-year warrant to purchase up to 2,660,918 ordinary shares; one-half of which are exercisable at $0.35 per share and one-half of which are exercisable at $0.40 per share. The detachable warrants and placement agent warrants have been valued separately at fair value using the Black-Scholes methodology. The fair value calculations assumed a risk-free interest rate of 4.9%, estimated expected volatility of 45% and no dividends. The value assigned to the detachable warrants and placement agent warrants, $363,172 and $77,167, respectively, is included in share capital on the Company's consolidated balance sheets. The convertible debentures were determined not to have a beneficial conversion feature because the conversion price was greater than the estimated fair value of ID Rehab's common stock at the time of issuance. The debt discount attributed to the detachable warrants and the debt offering costs attributable to the placement agent warrants are being amortized to interest expense over the two year term of the convertible debentures using the straight-line method which approximates the effective interest method.

Convertible notes:

Beginning in June 2006 and through June 2007, the Company received cash advances from VCC in exchange for convertible notes due in December 2008. In June 2006, the Company received cash advances of $57,000 from VCC under a 7% convertible note that allowed for maximum borrowings of up to $250,000. In November 2006, the Company entered into a $75,000, 9% convertible note with VCC. In January 2007, the Company entered into a $100,000, 9% convertible note. In April 2007, the Company entered into a $250,000, 9% convertible note.

These notes were convertible into shares of ID Rehab's common stock at fixed conversion rates of $0.15 per share on the 7% note and $0.25 per share on the 9% notes, at the option of VCC.

In June 2007, VCC converted approximately $256,000 of the convertible notes into ID Rehab common stock and $275,000 was repaid to VCC on these notes. In July 2007, the balance of the notes and interest owed to VCC were repaid.

6. Redeemable Convertible Preferred Shares and Warrants:

Series A and Series B redeemable convertible preferred shares:

On January 28, 2008, ID Rehab amended its Articles of Incorporation authorizing 1,750,000 shares of Series A Convertible Preferred Stock with a stated value of $2.00 per share ("Stated Value").

On June 9, 2008, ID Rehab further amended its Articles of Incorporation authorizing 500,000 shares of Series B Convertible Preferred Stock with a Stated Value of $2.00 per share to be pari passu with the Series A Convertible Preferred Stock in all respects except that the Series B Convertible Preferred Stock did not have voting rights and was not deemed “Junior Securities” as defined in the Amended Articles of Incorporation.

As part of the Reorganization, on June 25, 2008, all shares of ID Rehab’s Series A Convertible Preferred Stock and Series B Convertible Preferred Stock were exchanged for Series A Convertible Preferred shares (“Series A Preferred”) and Series B Convertible Preferred shares (“Series B Preferred”) of the Company on a one-for-one basis. On August 1, 2008, the Company filed its Amended and Restated Articles of Association (“Amended Articles of Association”) adopting the same terms and conditions applicable to the Company’s Series A and Series B Preferred shares that were adopted by ID Rehab when the shares were originally issued.

In accordance with the Amended Articles of Association, all Series A and Series B Preferred shares outstanding and all related accrued dividends payable as of September 5, 2008, were converted into IPO Units in accordance with the terms of the automatic conversion rights included in the Amended Articles of Association.

The Series A and Series B Preferred shares include the following preferences, limitations and rights.

Dividends:

Dividends on Series A and Series B Preferred shares accrue at 12% per annum on the Stated Value, are cumulative, and are payable in cash on the first day of each quarter when the Company becomes profitable. Series A and Series B Preferred dividends have priority over dividends on ordinary shares and any other share capital of the Company. Series A and Series B Preferred shares are participating in ordinary share dividends on the same terms and in the same fashion as if all of the Series A and Series B Preferred shares were converted into ordinary shares.

Liquidation preferences:

Series A and Series B Preferred shares have liquidation preferences in amounts equal to the greater of: a.) the Stated Value per share plus any accrued and unpaid dividends, or, b.) the amount per share that would have been payable had each share been converted into ordinary shares immediately prior to liquidation.

Voting rights:

Series A Preferred shares have voting rights and powers equal to the voting rights of ordinary shares on an “as if” converted to ordinary shares basis. As long as one-third of the Series A Preferred shares are outstanding, the Company is obligated to obtain a waiver from the holders of the majority of the outstanding Series A Preferred shares before: a.) declaring or paying cash dividends on ordinary shares or other share capital of the Company, b.) authorizing or issuing additional shares of Series A Preferred, c.) amending the rights, preferences or privileges of the Series A Preferred, d.) authorizing any equity security senior to or on parity with the Series A 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. Series B Preferred shares are non-voting.

Conversion rights:

During the period January 28, 2008, through December 31, 2008, the Series A and Series B Preferred shares and accrued and unpaid dividends thereon were required to automatically convert into IPO Units on the date of

closing (September 5, 2008) at a rate equal to 0.8 times the price paid per Unit by investors purchasing IPO Units.

Subsequent to December 31, 2008, the Series A and Series B Preferred shares, at Stated Value (plus any dividends accrued and unpaid dividends per share) are convertible into ordinary shares, at the option of the shareholder, at a price that is the lesser of: a.) $0.28 per ordinary share, or, b.) the market price (as defined in the Amended Articles of Association) of the ordinary shares at the date of conversion, but in no event less than $0.15 per ordinary share (the "Conversion Price").

Conversion rates are subject to certain anti-dilution adjustments as defined in the Amended Articles of Association.

Redemption:

On or before December 31, 2008, the Company could call, with 70 days prior written notice, all Series A and Series B Preferred shares at an amount equal to 120% of the Stated Value per share (plus accrued and unpaid dividends per share) as of the redemption date.

Any Series A and Series B Preferred shares outstanding on January 28, 2011, will be, at the option of the holder, either: a.) mandatorily converted into ordinary shares at the Conversion Price in effect on January 28, 2011, or, b.) mandatorily redeemed in cash equal to the Stated Value plus all accrued and unpaid dividends.

The Series A and Series B Preferred shares are considered to be contingently redeemable shares and were originally classified as temporary equity on the Company's balance sheet as the IPO was anticipated to occur prior to December 31, 2008, and the Series A and Series B Preferred shares would not become mandatorily convertible unless the Next Round of Financing (defined to be the issuance of ordinary or preferred shares of the Company resulting in gross proceeds of at least $5.0 million) failed to occur on or before December 31, 2008.

Series B redeemable convertible preferred shares and warrants:

During May and June 2008, the Company issued 497,500 shares of its Series B Preferred and five-year warrants to purchase 425,860 of the Company's ordinary shares for gross proceeds of $995,000. The warrants have an exercise price of $0.60 per share.

In accordance with EITF 00-27, the Company allocated the $995,000 gross proceeds between the warrants and the Series B Preferred shares on a basis of the relative fair values of each on the date of issuance. Using an ordinary share market price of $0.50 per share, estimated annual volatility of 38% and a discount rate of 3.41%, the warrants were valued at $0.162 per warrant using the Black-Scholes model. The amount of gross proceeds allocated to the warrants was $64,516 on the dates of issuance and this amount was recorded as an increase in ordinary shares and as a discount to the Series B Preferred shares. This discount was accreted over the period from the issuance dates to the contractual date of automatic conversion of the Series B Preferred shares (September 5, 2008) on a straight-line basis which approximated the effective interest method. The discount accretion was recorded as accretion of discount applicable to redeemable convertible preferred shares (an increase to net loss applicable to ordinary shares) in the consolidated statement of operations. The remaining unamortized discount of $34,810 on September 5, 2008 was also charged to accretion of discount applicable to redeemable convertible preferred shares.

Accretion of Series B Preferred shares discount totaled $64,516 during the year ended December 31, 2008. There was no accretion of Series B Preferred shares discount during the year ended December 31, 2007.

The fair value of the equity securities into which the Series B Preferred shares were convertible on the dates of issuance, $1,776,786, exceeded the proceeds allocated to the Series B Preferred shares by $846,302, resulting in beneficial conversion features totaling the same amount that were recorded as increases in ordinary shares and as further discounts to the Series B Preferred shares. These discounts were amortized over the period from the issuance dates to the contractual date of automatic conversion (September 5, 2008) on a straight-line basis which approximated the effective interest method. Amortization was recorded as deemed dividends on redeemable convertible preferred shares (an increase to net loss applicable to ordinary shares) in the consolidated statement of operations. Remaining unamortized discounts of $456,609 on September 5, 2008 were also charged to deemed dividends on redeemable convertible preferred shares.

Deemed dividends on Series B redeemable convertible preferred shares were $846,302 during the year ended December 31, 2008. There were no deemed dividends on Series B redeemable convertible preferred shares during the year ended December 31, 2007.

The Series B Preferred shares earned cumulative dividends at 12% per annum. Dividends on the Series B Preferred shares were $31,087 during the year ended December 31, 2008. There were no dividends on the Series B Preferred shares during the year ended December 31, 2007. No cash dividends were paid during the year ended December 31, 2008, because of losses sustained by the Company. In accordance with the terms of the Company's Amended Articles of Association, accrued dividends payable in the amount of $31,087 on the date of conversion were converted into 68,912 IPO Units.

Series A redeemable convertible preferred shares and warrants:

On January 28, 2008, the Company issued 1,750,000 shares of its Series A Preferred and five-year warrants to purchase 3,000,000 of the Company's ordinary shares for gross proceeds of $3,500,000. The warrants have an exercise price of $0.35 per share.

In accordance with EITF 00-27, the Company allocated the $3,500,000 gross proceeds between the warrants and the Series A Preferred shares on a basis of the relative fair values of each on the date of issuance. Using an ordinary share market price of $0.35 per share, estimated annual volatility of 38% and a discount rate of 2.8%, the warrants were valued at $0.132 per warrant using the Black-Scholes model. The amount of gross proceeds allocated to the warrants was $355,749 on the date of issuance and this amount was recorded as an increase in ordinary shares and as a discount to the Series A Preferred shares. This discount was accreted over the period from the issuance date to the contractual date of automatic conversion of the Series A Preferred shares (September 5, 2008) on a straight-line basis which approximated the effective interest method. The discount accretion was recorded as accretion of discount applicable to redeemable convertible preferred shares (an increase to net loss applicable to ordinary shares) in the consolidated statement of operations. The remaining unamortized discount of $88,427 on September 5, 2008 was also charged to accretion of discount applicable to redeemable convertible preferred shares.

Accretion of Series A Preferred shares discount totaled $355,749 during the year ended December 31, 2008. There was no accretion of Series A Preferred shares discount during the year ended December 31, 2007.

The fair value of the equity securities into which the Series A Preferred shares were convertible on the date of issuance, $4,375,000, exceeded the proceeds allocated to the Series A Preferred shares by $1,230,749, resulting in a beneficial conversion feature in the same amount that was recorded as an increase in ordinary shares and as a further discount to the Series A Preferred shares. This discount was amortized over the period from the issuance date to the contractual date of automatic conversion (September 5, 2008) on a straight-line basis which approximated the effective interest method. Amortization was recorded as deemed dividends on redeemable convertible preferred shares (an increase to net loss applicable to ordinary shares) in the consolidated statement

of operations. The remaining unamortized discount of $305,906 on September 5, 2008 was also charged to deemed dividends on redeemable convertible preferred shares.

Deemed dividends on Series A redeemable convertible preferred shares were $1,230,749 during the year ended December 31, 2008. There were no deemed dividends on Series A redeemable convertible preferred shares during the year ended December 31, 2007.

The Series A Preferred shares earned cumulative dividends at 12% per annum. Dividends on the Series A Preferred shares were $254,301 during the year ended December 31, 2008. There were no dividends on the Series A Preferred shares during the year ended December 31, 2007. No cash dividends were paid during the year ended December 31, 2008, because of losses sustained by the Company. In accordance with the terms of the Company's Amended Articles of Association, accrued dividends payable in the amount of $254,301 on the date of conversion were converted into 563,731 IPO Units.

7. Shareholders' Equity:

Ordinary shares:

On September 5, 2008, the Company completed its IPO consisting of 17,000,000 IPO Units at a price of CDN$0.60 per Unit, resulting in gross proceeds of CDN$10,200,000.

Each Unit consisted of one ordinary share of the Company and one-half of one ordinary share purchase warrant. Each warrant entitles the holder to purchase one additional ordinary share at a price of CDN$0.90 per share for a period of 24 months from the Listing Date (the "IPO Warrants").

Bolder Investment Partners, Ltd. ("Bolder") acted as agent for the IPO in Canada and Green Drake, Inc. (together with Bolder, the "Agents") acted as agent for the offering of Units to qualified purchasers on a private placement basis in the United States. In connection with the IPO, the Company paid the Agents an 8% cash commission of CDN$816,000 and issued warrants to purchase an aggregate of 1,360,000 ordinary shares at a price of CDN$0.60 per share for a period of 24 months from the Listing Date (the "Agents Warrants"). The Company also issued 50,000 Units to Bolder (the "Corporate Finance Units"), paid Bolder a corporate finance fee of CDN$150,000 and paid Green Drake a similar fee in the amount of $140,000 as additional compensation in connection with the IPO.

Concurrent with the completion of the IPO, the Company's issued and outstanding preferred shares, consisting of 1,750,000 Series A Preferred shares and 497,500 Series B Preferred shares, together with accrued dividends payable totaling $285,388, were automatically converted in accordance with the special rights and restrictions of such shares and dividends payable into a total of 10,597,068 ordinary shares and 5,298,528 warrants, each warrant having the same terms as the IPO Warrants. The Company also issued to the Agents, as consideration applicable to the conversion transaction, warrants to purchase an aggregate of 486,848 ordinary shares at a price of $0.48 per share for a period of five years (the "Agents' Conversion Warrants").

The Company incurred IPO equity issuance costs totaling $2,267,898 (including the aforementioned Agents' commissions and fees). IPO equity issuance costs include noncash costs of $303,648 representing the fair market value of the Agents Warrants, the Agents' Conversion Warrants, the Corporate Finance Units and stock options issued for consulting services.

The fair values of the IPO Warrants, Agents Warrants and Agents' Conversion Warrants were calculated using the Black-Scholes valuation model with the following assumptions as of September 5, 2008:

	Assumptions
Expected term	2.0 – 5.0 years
Estimated volatility	38%
Risk-free interest rate	2.23% – 2.91%
Dividend yield	0%

On June 24, 2008, the Company completed a private placement of 1,041,667 ordinary shares and detachable warrants to purchase 734,374 ordinary shares at exercise prices ranging from $0.60 to $0.90. Each unit, priced at $0.48 per unit, consisted of one ordinary share and 0.5 five-year warrant to purchase ordinary shares at $0.60 per share and 0.205 warrant to purchase ordinary shares at $0.90 per share. The term of the $0.90 warrants expires on the earlier of December 31, 2010, or 24 months from the Listing Date. Total proceeds from the private placement were $500,000 and the proceeds were allocated to the warrants and ordinary shares based on the relative fair market value of each on the date the offering closed; the allocated amounts were $47,950 and $452,050, respectively.

The fair values of the warrants were calculated using the Black-Scholes valuation model with the following assumptions on June 24, 2008:

	Assumptions
Expected term	2.2 – 5.0 years
Estimated volatility	38%
Risk-free interest rate	2.87% - 3.52%
Dividend yield	0%

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. 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. Shares issued under these plans are 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 historical expected share price 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 years ended December 31, 2008 and 2007:

	Year Ended December 31,	
	2008	**2007**
Expected term	2.9 – 5.0 years	2.8 - 3.3 years
Estimated volatility	38%	45%
Risk-free interest rate	1.8% - 3.7%	4.5% – 4.9%
Dividend yield	0%	0%

During the year ended December 31, 2008, the Company granted 2,235,000 options to employees and consultants at exercise prices ranging from $0.35 to $0.60 per share and 647,000 options to employees and consultants at an exercise price of CDN$0.60. During the year ended December 31, 2007, the Company granted 850,000 options to employees and consultants at an exercise price of $0.28 per share.

A summary of stock option activity for the years ended December 31, 2008 and 2007 follows:

Stock Options Denominated in U.S. Dollars

	Year Ended December 31,			
	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	1,655,556	$ 0.21	1,000,000	$ 0.15
Granted	2,235,000	0.58	850,000	0.28
Exercised	(55,556)	0.15	—	—
Forfeited	(343,334)	0.42	(194,444)	0.25
Expired	(116,666)	0.30	—	—
Outstanding, end of period	3,375,000	$ 0.43	1,655,556	$ 0.21
Exercisable, end of period	1,769,583	$ 0.32	1,030,556	$ 0.16
Exercisable and expected to vest as of December 31, 2008	3,375,000	$ 0.43		

Stock Options Denominated in Canadian Dollars

	Year Ended December 31,			
	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	—	$ —	—	$ —
Granted	647,000	0.60	—	—
Outstanding, end of period	647,000	$ 0.60	—	$ —
Exercisable, end of period	35,000	$ 0.60	—	$ —
Exercisable and expected to vest as of December 31, 2008	647,000	$ 0.60		

A summary of stock options outstanding and stock options exercisable at December 31, 2008 follows:

Stock Options Denominated in U.S. Dollars

	Stock Options Outstanding		Stock Options Exercisable
Exercise Prices	Shares	Weighted Average Remaining Contractual Term (years)	Shares
$0.15	900,000	2.42	900,000
$0.28	400,000	3.43	254,166
$0.35	75,000	4.07	22,917
$0.48	150,000	4.39	75,000
$0.60	1,850,000	4.46	517,500
	3,375,000	3.78	1,769,583

Stock Options Denominated in Canadian Dollars

	Stock Options Outstanding		Stock Options Exercisable
Exercise Prices	Shares	Weighted Average Remaining Contractual Term (years)	Shares
$0.60	647,000	4.81	35,000
	647,000	4.81	35,000

The weighted average remaining contractual term for all stock options outstanding and all stock options exercisable at December 31, 2008 is 3.95 years and 3.30 years, respectively.

The total intrinsic value of options exercised is the difference between the exercise price of the option and the market price of the Company's ordinary shares on the exercise date. All options exercised during the year ended December 31, 2008 were denominated in U.S. dollars and the total intrinsic value of options exercised was $7,222 during this period. No options were exercised during the year ended December 31, 2007.

The aggregate intrinsic value of stock options is the difference between the closing price of the Company's ordinary shares on the TSXV on December 31, 2008 and the exercise price multiplied by the number of options. On December 31, 2008, the aggregate intrinsic value of outstanding options, exercisable options and exercisable and expected to vest options denominated in U.S. dollars was $78,300. All outstanding options, exercisable options and exercisable and expected to vest options denominated in Canadian dollars had exercise prices greater than the closing price of the Company's ordinary shares on December 31, 2008. As a result, these stock options had no intrinsic value at December 31, 2008.

We granted 2,882,000 and 850,000 stock options to employees, directors and consultants during the years ended December 31, 2008 and 2007, respectively. The weighted-average grant date fair values of options granted during the years ended December 31, 2008 and 2007 were $0.11 and $0.09, respectively. During the year ended December 31, 2008, 698,749 stock options vested with a total grant date fair value of $86,652. During the year ended December 31, 2007, 100,000 stock options vested with a total grant date fair value of $8,250.

Share-based compensation expense:

A summary of share-based compensation expense follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Share-based compensation expense – employees and directors	$ 54,066	$ 58,642
Share-based compensation expense – consultants - related parties	33,000	74,500
Share-based compensation expense – consultants – other	102,015	—
Total share-based compensation expense	$ 189,081	$ 133,142
Share-based compensation expense charged to ordinary shares as part of equity issuance costs	$ 6,938	$ —

As of December 31, 2008, there were 1,792,417 nonvested employee stock options outstanding and the total unrecognized share-based compensation expense relating to these options was $141,847. This expense is expected to be recognized over a weighted average period of 2.36 years.

Warrants:

A summary of warrant activity for the years ended December 31, 2008 and 2007 follows:

Warrants Denominated in U.S. Dollars

	Year Ended December 31,			
	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	15,965,486	$ 0.38	15,965,486	$ 0.38
Issued	4,647,082	0.46	—	—
Exercised	(714,284)	0.38	—	—
Outstanding, end of period	19,898,284	$ 0.40	15,965,486	$ 0.38

Warrants Denominated in Canadian Dollars

	Year Ended December 31,			
	2008		2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	—	$ —	—	$ —
Issued	15,183,528	0.87	—	—
Exercised	—	—	—	—
Outstanding, end of period	15,183,528	$ 0.87	—	$ —

The following tables present the composition of warrants outstanding as of December 31, 2008:

Warrants Denominated in U.S. Dollars

Exercise Prices	Shares	Weighted Average Remaining Contractual Term (years)
$0.35	10,625,601	3.66
$0.40	7,625,601	3.50
$0.48	486,848	4.68
$0.60	639,401	4.44
$0.90	520,833	1.72
Outstanding as of December 31, 2008	19,898,284	3.60

Warrants Denominated in Canadian Dollars

Exercise Prices	Shares	Weighted Average Remaining Contractual Term (years)
$0.60	1,360,000	1.72
$0.90	13,823,528	1.72
Outstanding as of December 31, 2008	15,183,528	1.72

Ordinary shares reserved for future issuance:

The following ordinary shares are reserved for future issuance at December 31, 2008:

	Shares
Stock option plan	7,200,000
Warrants	35,081,812
Convertible debentures	12,736,430
Total	55,018,242

8. Commitments and Contingencies:

Commitments:

The Company leases office facilities and equipment under a non-cancelable operating leases expiring in 2010. Future minimum lease payments are as follows:

		Amount
2009	$	137,327
2010		37,759
Thereafter		—
Total	$	175,086

Rent expense for the years ended December 31, 2008 and 2007 was $96,341 and $67,186, respectively.

Contingencies:

The Company is involved in various claims and legal actions in the ordinary course of business. In the opinion of management, the ultimate disposition of all of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

9. Income taxes:

The Company's provision for income taxes during the years ended December 31, 2008 and 2007 were different from the amount expected by applying the statutory federal income tax rate to the Company's net loss as reported in the consolidated statement of operations. The approximate differences are as follows:

	Year Ended December 31,			
	2008		2007	
Expected tax benefit computed at statutory rate	$	(2,851,000)	$	(1,091,400)
Expected state tax benefit, net		(245,000)		(93,900)
Effect of permanent differences		(168,000)		39,400
Other		(18,000)		—
Increase in valuation allowance		3,282,000		1,145,900
	$	—	$	—

Deferred tax assets consisted of the following at December 31, 2008 and 2007:

	December 31,	
	2008	**2007**
Non-current deferred tax assets:		
Net operating loss carryforwards	$ 4,878,000	$ 1,672,000
Share-based compensation	79,000	26,000
Other	23,000	—
Valuation allowance	(4,980,000)	(1,698,000)
Net deferred tax assets	$ —	$ —

At December 31, 2008, the Company has net operating loss carryforwards of approximately $12,800,000 which, if not utilized, begin to expire in 2025. As a result of certain changes in the Company's ownership, the future utilization of the net operating loss and credit carryforwards may be limited under Internal Revenue Code Section 382. As the Company is unable to determine that it is more likely than not that future taxable income of the Company will be sufficient to utilize the net operating loss carryforwards, a valuation allowance has been established against those deferred tax assets.

The Company files income tax returns in the U.S. federal jurisdiction and the State of Colorado. The Company is subject to U.S. federal and state examinations for 2005 through 2008. Management does not believe there will be any material changes in its uncertain tax positions over the next twelve months.

10. Benefit Plans:

During 2006, the Company established a 401(k) plan which provides retirement savings options for all eligible employees. The Company makes a matching contribution based on the participants' eligible wages. During the years ended December 31, 2008 and 2007, the Company made matching contributions of $8,352 and $3,112, respectively.

11. Generally Accepted Accounting Principles in Canada:

The consolidated financial statements have been prepared in accordance with U.S. GAAP which differs in certain respects from those principles that the Company would have followed had its consolidated financial statements been prepared in accordance with Canadian GAAP. There were no significant measurement differences that materially affect the consolidated financial statements at December 31, 2007 or the year then ended. Significant measurement differences that materially affect the consolidated financial statements at December 31, 2008 or the year then ended are as follows:

The Company has issued warrants to purchase ordinary shares that are denominated in Canadian dollars, which results in the Company having warrants outstanding that are denominated outside its U.S. dollar functional currency. Under U.S. GAAP warrants with exercise prices denominate in a currency other than its functional currency cannot be classified as equity. As a result, these instruments are treated as derivatives and are recorded as liabilities which are carried at fair value with changes in the fair value recorded in the consolidated statement of operations.

During 2008, the Company recorded its Series A and Series B redeemable convertible preferred shares as temporary equity and classified the amortization of the discount related to the redeemable convertible preferred shares beneficial conversion features, the accretion of the discount related to detachable warrants issued in conjunction with the redeemable convertible shares and the dividends on the redeemable convertible preferred

shares as an expense applicable to ordinary shares. Had the Company followed Canadian GAAP, the Series A and Series B redeemable convertible preferred shares would have been classified as liabilities and the aforementioned expenses would have been classified as interest expense under Canadian GAAP.

Had the Company followed Canadian GAAP, certain items in the 2008 consolidated statements of operations, consolidated statements of shareholders' equity and consolidated balance sheet would have been reported as follows:

Consolidated Balance Sheet	**December 31, 2008**	**December 31, 2008**
	Canadian GAAP	**U.S. GAAP**
Derivative contract liabilities	$ —	$ 21,983
Total current liabilities	$ 4,342,446	$ 4,364,429
Ordinary shares	$ 18,221,283	$ 17,441,578
Accumulated deficit	$ (16,396,043)	$ (15,638,321)
Total shareholders' equity	$ 1,825,239	$ 1,803,256

Consolidated Statement of Shareholders' Equity	**December 31, 2008**	**December 31, 2008**
	Canadian GAAP	**U.S. GAAP**
Warrants issued in connection with IPO, sale of Series A and Series B redeemable convertible preferred shares and private placement of ordinary shares	$ 1,357,948	$ 578,243

Consolidated Statement of Operations	**Year Ended December 31, 2008**
Net loss under U.S. GAAP	$ (8,144,754)
Gain on derivative contract liabilities recognized	(757,722)
Additional interest expense under Canadian GAAP	(2,782,704)
Net loss under Canadian GAAP	(11,685,180)