ID WATCHDOG, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009
(Expressed in U.S. Dollars)

The following management's discussion and analysis ("MD&A") of the consolidated operating results and financial condition of ID Watchdog, Inc. for the three and six months ended June 30, 2009 and 2008 has been prepared based on information available to us as of August 17, 2009 and is intended to be read in conjunction with our consolidated interim financial statements and related notes for the three and six months ended June 30, 2009 and 2008 and in conjunction with our audited financial statements for the year ended December 31, 2008 and related MD&A. This MD&A contains "forward-looking information" and reference to the cautionary statement at the end of this MD&A is advised. Additional information relating to ID Watchdog, Inc. is available on SEDAR at www.sedar.com.

We prepared our consolidated financial statements and related notes in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and, except where as noted, present our results in United States dollars.

For purposes of this discussion, we have used the foreign exchange rate in effect at June 30, 2009, of CDN$1.00 = US$0.8602.

Overview and recent developments:

Our business was founded in 2005 and our services provide detection and resolution solutions for identity theft and other consumer report problems. Our services monitor key data fields in consumer reports, access and analyze full reports, and resolve damage to consumer reports.

During the first half of 2007, we focused on development of our services, raising working capital, and developing marketing strategies. In the third quarter of 2007, we began marketing our services and continued to enhance our internal systems. During the fourth quarter of 2007, we transitioned from a development stage enterprise into an operating company. In the past two years, we increased our marketing expenditures from $1.4 million in 2007 to $8.3 million during 2008.

During the first half of 2008, we raised $5.0 million by completing private placements of our Series A and Series B redeemable convertible preferred shares and warrants totalling $4.5 million (the "Series A Preferred" and the "Series B Preferred", respectively) and by completing a $0.5 million private placement of our ordinary shares with ordinary share purchase warrants.

On September 5, 2008, we completed our initial public offering (our "IPO") raising $8.1 million net of equity issuance costs. On September 17, 2008, the TSX Venture Exchange (the "TSXV") approved the listing of our ordinary shares and the classification of our company as a "Tier 1 Industrial or Technology Issuer." Our ordinary shares began trading on the TSXV on September 18, 2008, (the "Listing Date") under the symbol "IDW."

On June 30, 2009, we had $689,577 of cash and cash equivalents on hand.

During 2008, our first full year of commercial operations, we enrolled approximately 210,000 new customers and as of December 31, 2008, we had approximately 38,000 customers with active subscriptions, an increase of approximately 9,000 customers with active subscriptions as compared to December 31, 2007 levels. An active customer is defined as a customer who has paid monthly subscription fee and is no more than 60 days past due.

In an effort to improve our customer retention rates and to lower our customer acquisition costs, in November 2008, we discontinued the use of one of our marketing affiliates which provided access to new customers and we established relationships with new affiliates. As a result of this shift, our new customer acquisitions declined in December to less than 1,000 which was significantly below our goal.

In November and December 2008 and in the first quarter of 2008, we began to focus our marketing efforts on additional marketing affiliate relationships and Internet affiliates and decreased our direct response campaigns. At June 30, 2009, we had approximately 40,000 customers with active subscriptions.

We believe that current economic conditions will create additional demand for our services as crime rates typically increase during economic downturns and we believe that this will cause the crime of identity theft to also increase. We also believe that increases in consumer awareness of identity theft monitoring and resolution services and increases in consumer demand for our services will offset any negative impacts to our business that may result from decreases in consumer spending as a result of current economic conditions.

Development and marketing of services:

We have developed three services that we believe will benefit our customers by detecting and resolving identity theft and other consumer report data problems. Our three services, ID Watchdog^{SM}, ID SnapShot^{SM} and ID Rehab^{SM} are specifically designed to work together and are generally offered together through our ID Watchdog Plus^{SM} plan for a monthly, annual or multi-year subscription fee. Our ID Watchdog^{SM} service examines consumer databases to identify leading indicators of identity theft or manipulation. Customers are alerted upon the occurrence of events which signal that identify theft or personal identity data manipulation may be occurring. Our ID SnapShot^{SM} service provides more detailed information about a consumer's identity data to pinpoint and scope suspected data manipulation. Once a customer's identity problem is identified, our ID Rehab^{SM} identity theft resolution service is used to assist the customer in correcting and restoring records to the state before the data manipulation occurred.

(Expressed in U.S. Dollars)

Selected financial information:

Our financial information set out below is based on and derived from our unaudited consolidated financial statements as of the dates and for the periods indicated and should be read in conjunction with our MD&A and the consolidated financial statements and the accompanying notes which are available on our website at www.idwatchdog.com and/or the SEDAR website at www.sedar.com. The following selected financial information has been prepared in accordance with U.S. GAAP. For reconciliation to Canadian generally accepted accounting principles see Note 8 to the consolidated financial statements.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	$ 1,929,860	$ 1,104,374	$ 3,143,881	$ 1,995,700
Gross profit	1,467,377	887,437	2,417,494	1,551,788
Operating expense	(3,753,547)	(3,265,563)	(7,625,350)	(5,649,262)
Operating loss	(2,286,170)	(2,378,126)	(5,207,856)	(4,097,474)
Net loss	(1,686,342)	(2,583,736)	(5,669,015)	(4,495,740)
Dividends, deemed dividends and accretion of discount related to redeemable convertible preferred shares	—	(556,751)	—	(1,284,300)
Net loss applicable to ordinary shares	$ (1,686,342)	$ (3,140,487)	$ (5,669,015)	$ (5,780,040)
Basic and diluted net loss per share	$ (0.03)	$ (0.16)	$ (0.11)	$ (0.29)

Balance Sheet Data:	June 30, 2009 (unaudited)	December 31, 2008
Cash and cash equivalents	$ 689,577	$ 5,117,596
Total assets	$ 1,565,475	$ 6,175,539
Total long-term liabilities	$ 6,476	$ 7,854
Total liabilities	$ 1,854,478	$ 4,372,283
Total shareholders' equity (deficit)	$ (289,003)	$ 1,803,256

Summary of quarterly results - unaudited:

	2009 Quarter 2	2009 Quarter 1	2008 Quarter 4	2008 Quarter 3
Revenue	$ 1,929,860	$ 1,214,021	$ 1,409,959	$ 1,282,631
Net loss	$(1,686,342)	$(3,982,673)	$(1,782,714)	$(1,866,300)
Net loss applicable to ordinary shares	$(1,686,342)	$(3,982,673)	$(1,782,714)	$(3,364,704)
Basic and diluted net loss per share	$ (0.03)	$ (0.08)	$ (0.04)	$ (0.11)

	2008 Quarter 2	2008 Quarter 1	2007 Quarter 4	2007 Quarter 3
Revenue	$ 1,104,374	$ 891,326	$ 136,293	$ 16,176
Net loss	$(2,583,736)	$(1,912,004)	$(1,475,673)	$ (928,743)
Net loss applicable to ordinary shares	$(3,140,487)	$(2,639,553)	$(1,475,673)	$ (928,743)
Basic and diluted net loss per share	$ (0.16)	$ (0.13)	$ (0.08)	$ (0.05)

During the fourth quarter of 2007, we transitioned from a development stage enterprise into an operating company. Our revenue increased during the five fiscal quarters ending with the fourth quarter 2008 as a result of the ramp-up of our commercial operations. Our revenue declined during the first quarter of 2009 as compared to the fourth quarter of 2008 as a result of our efforts to improve customer retention rates and lower customer acquisition costs. During the second quarter of 2009, our revenues increased as we engaged several external call centers to sell and cross-sell our services in conjunction with their inbound and outbound calls.

During the third quarter of 2007, we began marketing our services. Our net losses increased significantly during the third quarter of 2007 through the second quarter of 2008 mainly due to increased marketing expenses during each of these four quarters. Our net loss decreased during the third quarter of 2008 as compared to the second quarter of 2008 as we reduced marketing expenditures during the third quarter of 2008 in order to conserve cash prior to the date of our IPO. Our net loss decreased during the fourth quarter of 2008 as compared to the third quarter of 2008 as we increased our marketing expenditures and general and administrative expenses subsequent to receiving cash from our IPO, and these increases were offset by the recognition of a $757,722 non-cash gain on derivative contract liabilities.

Our net loss decreased during the second quarter 2009 as compared to the first quarter 2009 primarily due to the turnaround of the gain/loss on the derivative contract liability. The Company posted a non-cash loss of $866,617 in the first quarter of 2009 and a gain of $781,960 in the second quarter due to the change in the fair market value ("FMV") of our ordinary shares. The change in the FMV of our ordinary shares caused a decrease of $1,648,577 in the net loss when comparing the 2009 second quarter to the first quarter. The increase in revenue during the second quarter and the resulting increase in gross profit primarily accounted for the remaining decrease in net loss.

Our net loss applicable to ordinary shares increased during the first three quarters of 2008 due to our increasing net losses discussed above and as a result of dividends on redeemable convertible preferred shares, deemed dividends on redeemable convertible preferred shares and accretion of the discount related to redeemable convertible preferred shares. We incurred a total of $2,782,704 of non-cash expenses relating to our redeemable convertible preferred shares during the period January 28, 2008 through September 5, 2008, the date that our redeemable convertible preferred shares were converted into ordinary shares and warrants to purchase ordinary shares. Our net loss applicable to ordinary shares decreased during the fourth quarter of 2008 as compared to the third quarter of 2008 as we did not incur expenses related to redeemable convertible preferred shares during the fourth quarter of 2008. Our net loss applicable to ordinary shares increased during the second quarter of 2009 as compared to the first quarter of 2009 due to the decreased in net loss described above.

Results of operations:

Comparison of the three months ended June 30, 2009 to the three months ended June 30, 2008

Revenue and gross profit

For the three months ended June 30, 2009 and 2008, we recognized revenue of $1,929,860 and $1,104,374, respectively, from the sale of our services. Our cost of revenue for the three months ended June 30, 2009, was $462,483 resulting in a gross profit of $1,467,377, while our cost of revenue for the three months ended June 30, 2008, was $216,937 resulting in a gross profit of $887,437. Our revenue, cost of revenue and gross profit increased during the second quarter of 2009 as compared to the second quarter of 2008, as we continued our marketing plans to acquire new customers and as a result of the revenue generated from a larger retained customer base in the second quarter of 2009 over the same period in 2008.

Marketing expense

Our marketing expense includes marketing agents' commissions, advertising and production costs, website design and development costs and marketing and call center staff wages and related expenses. Our marketing expense for the three months ended June 30, 2009, was $2,544,735 as compared to $2,514,032 for the same period in 2008. Our marketing costs remained constant when comparing the second quarter 2009 to the same period in 2008. We expect marketing expenses to decrease in the third quarter of 2009 as compared to the first and second quarters of 2009 as we conserve cash and focus our efforts on achievement of positive cash flows.

In January 2008, we entered into a month-to-month services agreement with Veracity Credit Consultants, LLC ("VCC"), an entity controlled by Justin Yurek, ID Watchdog's President, to provide call center facilities and call center services at prevailing market rates. We incurred $36,624 and $75,000 of related party call center marketing expense relating to this arrangement during the three months ended June 30 2009 and 2008, respectively.

General and administrative expense

General and administrative expense includes non-marketing salaries, non-marketing benefits, consultants' fees, rent, telephone, insurance, depreciation, other general and administrative expense and related party consulting expense.

Our general and administrative expense amounted to $1,208,812 and $751,531 during the three months ended June 30, 2009 and 2008, respectively. This $457,281 increase in general and administrative expense was due in part to a $327,000 increase in consulting expense mainly related to information system maintenance and improvements and expenditures related to being a public company and a $147,000 increase in non-marketing wages and related expense resulting from increased headcount (15 non-marketing employees at June 30, 2009 compared to 7 non-marketing employees at June 30, 2008). An increase of $11,000 in general and administrative related party consulting expenses completes the balance of the increase. The remaining general and administrative expense categories net to a decrease for the 2009 second quarter as compared to the 2008 quarter.

During the three months ended June 30, 2009, we incurred related party consulting expense of $90,675 as compared to $79,358 during the same period in 2008, an increase of $11 thousand. During the three months ended June 30, 2009, we incurred $50,263 of consulting expense for services from Daryl Yurek, our Chairman and CEO, as compared to $31,358 during the same period in 2008. This increase was a result of an increase in compensation rates. Consulting services provided by one of our directors increased to $19,500 during the three months ended June 30, 2009 from $15,000 during the same period in 2008, we paid one of our directors $18,409 for consulting services during the three months ended June 30, 2009 and nil in the same period in 2008 and we incurred consulting services of $15,000 from Bolder Venture Partners, LLC. (an entity controlled by the Company's Chief Executive Officer) and $2,503 from VCC during the second quarter of 2009 from nil during the same period in 2008. These increases reflect increased compensation rates and increased levels of service provided by this individual and our affiliate.

Interest expense

In June and July 2007, we issued $3,725,291 of convertible debentures that bear interest at 9% per annum and mature two years from the date of issuance.

Interest expense during the three months ended June 30, 2009 and 2008 totalled $193,252 and $213,649, respectively. These amounts included non-cash amortization of debt offering costs of $78,387 and

$81,685 during the three months ended June 30, 2009 and 2008, respectively. Interest expense also included non-cash amortization of debt discount of $41,759 and $48,439 during each of the periods in 2009 and 2008, respectively.

Loss on derivative contract liabilities

We have recorded the fair value of our warrants denominated in Canadian dollars as a derivative contract liability in accordance with U.S. GAAP. The U.S.GAAP accounting creates a difference in Canadian generally accepted accounting principles. For reconciliation to Canadian generally accepted accounting principles see Note 8 to the consolidated financial statements. Each period, we adjust the estimated fair value of these derivative financial instruments through a charge or credit to earnings until such time as the instruments are exercised, expire or are permitted to be classified in shareholders' equity. During the three months ended June 30, 2009, we incurred a non-cash gain of $781,960 as compared to nil during the three months ended June 30, 2008 related to the change in fair value of our derivative contract liabilities. This decrease in the fair value of our derivative contract liabilities was mainly as a result of a decrease in the market price of our ordinary shares from CDN $0.69 at March 31, 2009 to CDN $0.45 per share at June 30, 2009.

Expense applicable to redeemable convertible preferred shares

During the six months ended June 30, 2008, we issued $3,500,000 and $995,000 of 12% cumulative Series A and Series B redeemable convertible preferred shares (the "Series A Preferred" and the "Series B Preferred"), respectively. On September 5, 2008, all Series A Preferred and Series B Preferred shares outstanding and all related accrued dividends payable were converted into IPO Units in accordance with the terms of the automatic conversion rights included in our Amended and Restated Articles of Association.

During the three months ended June 30, 2008, we recorded $113,595 of dividends on redeemable convertible preferred shares in our consolidated statements of operations.

The original discount of $2,497,316 associated with these securities represented the fair value of the detachable warrants ($420,265) and the fair value of the beneficial conversion features ($2,077,051) on the dates these securities were issued. This discount was amortized as accretion of discount related to redeemable preferred shares and deemed dividends on redeemable preferred shares, respectively, in our consolidated statements of operations up until the date of conversion. During the three months ended June 30, 2008, we recorded as an expense $364,481 of deemed dividends related to the fair value of the beneficial conversion feature and $78,675 of accretion of discount related to fair value of the detachable warrants.

Comparison of the six months ended June 30, 2009 to the six months ended June 30, 2008

Revenue and gross profit

For the six months ended June 30, 2009 and 2008, we recognized revenue of $3,143,881 and $1,995,700, respectively, from the sale of our services. Our cost of revenue for the six months ended June 30, 2009, was $726,387 resulting in a gross profit of $2,417,494, while our cost of revenue for the six months ended June 30, 2008, was $443,912 resulting in a gross profit of $1,551,788. Our revenue, cost of revenue and gross profit increased during the second quarter of 2009 as compared to the second quarter of 2008, as we continued our marketing plans to acquire new customers and as a result of the revenue generated from a larger retained customer base in the first quarter of 2009 over the same period in 2008.

Marketing expense

Our marketing expense includes marketing agents' commissions, advertising and production costs, website design and development costs and marketing and call center staff wages and related expenses. Our marketing expense for the six months ended June 30, 2009, was $5,038,716 as compared to $4,335,445 for the same period in 2008. This increase primarily reflects increased costs related to the 2009 first quarter operations related to implementation of our marketing strategies and marketing efforts and the growth of the Company's operations. We expect marketing expenses to decrease in the third quarter of 2009 as compared to the first and second quarters of 2009 as we conserve cash and focus our efforts on achievement of positive cash flows.

In January 2008, we entered into a month-to-month services agreement with Veracity Credit Consultants, LLC ("VCC"), an entity controlled by Justin Yurek, ID Watchdog's President, to provide call center facilities and call center services at prevailing market rates. We incurred $84,300 and $145,000 of related party call center marketing expense relating to this arrangement during the six months ended June 30 2009 and 2008, respectively.

General and administrative expense

General and administrative expense includes non-marketing salaries, non-marketing benefits, consultants' fees, rent, telephone, insurance, depreciation, other general and administrative expense and related party consulting expense.

Our general and administrative expense amounted to $2,586,634 and $1,313,817 during the six months ended June 30, 2009 and 2008, respectively. This $1,272,817 increase in general and administrative expense was due in part to a $692,000 increase in consulting expense mainly related to information system maintenance and improvements and expenditures related to being a public company and a $325,000 increase in non-marketing wages and related expense resulting from increased headcount (15 non-marketing employees at June 30, 2009 compared to 7 non-marketing employees at June 30, 2008), with the remaining $202,000 increase due to increases in office-related expenses, travel and entertainment expenses, depreciation of fixed assets and other general and administrative expenses as a result of our increased headcount and growth of our operations. An increase of $54,000 in related party consulting expenses completes the balance of the increase.

During the six months ended June 30, 2009, we incurred related party consulting expense of $158,462 as compared to $119,775 during the same period in 2008, an increase of $38,687. During the six months ended June 30, 2009, we incurred $100,050 of consulting expense for services from Daryl Yurek, our Chairman and CEO, as compared to $56,775 during the same period in 2008. This increase was a result of an increase in compensation rates. Consulting services provided by one of our directors increased to $37,500 during the six months ended June 30, 2009 from $30,000 during the same period in 2008, we paid one of our directors $18,409 for consulting services during the second quarter of 2009 and nil during the same period in 2008 and we incurred $15,000 of consulting services provided by Bolder Venture Partners, LLC and $17,493 from VCC during the six months ended June 30, 2009 from nil during the same period in 2008. These increases reflect increased compensation rates and increased levels of service provided by this individual and our affiliates.

Interest expense

In June and July 2007, we issued $3,725,291 of convertible debentures that bear interest at 9% per annum and mature two years from the date of issuance.

Interest expense during the six months ended June 30, 2009 and 2008 totalled $396,755 and $424,146, respectively. These amounts included non-cash amortization of debt offering costs of $160,072 and $163,369 during the six months ended June 30, 2009 and 2008, respectively. Interest expense also included non-cash amortization of debt discount of $84,215 and $93,380 during each of the periods in 2009 and 2008, respectively.

Loss on derivative contract liabilities

We have recorded the fair value of our warrants denominated in Canadian dollars as a derivative contract liability in accordance with U.S. GAAP. Each period, we adjust the estimated fair value of these derivative financial instruments through a charge or credit to earnings until such time as the instruments are exercised, expire or are permitted to be classified in shareholders' equity. During the six months ended June 30, 2009, we incurred a non-cash charge of $84,657 as compared to nil during the six months ended June 30, 2008 related to the change in fair value of our derivative contract liabilities. This increase in the fair value of our derivative contract liabilities was mainly as a result of an increase in the market price of our ordinary shares from CDN $0.29 at December 31, 2008 to CDN $0.45 per share at June 30, 2009

Expense applicable to redeemable convertible preferred shares

During the six months ended June 30, 2008, we issued $3,500,000 and $995,000 of 12% cumulative Series A and Series B redeemable convertible preferred shares (the "Series A Preferred" and the "Series B Preferred"), respectively. On September 5, 2008, all Series A Preferred and Series B Preferred shares outstanding and all related accrued dividends payable were converted into IPO Units in accordance with the terms of the automatic conversion rights included in our Amended and Restated Articles of Association.

During the six months ended June 30, 2008, we recorded $186,088 of dividends on redeemable convertible preferred shares in our consolidated statements of operations.

The original discount of $2,497,316 associated with these securities represented the fair value of the detachable warrants ($420,265) and the fair value of the beneficial conversion features ($2,077,051) on the dates these securities were issued. This discount was amortized as accretion of discount related to redeemable preferred shares and deemed dividends on redeemable preferred shares, respectively, in our consolidated statements of operations up until the date of conversion. During the six months ended June 30, 2008, we recorded as an expense $872,657 of deemed dividends related to the fair value of the beneficial conversion feature and $225,555 of accretion of discount related to fair value of the detachable warrants.

Liquidity and capital resources:

Recent financings

On January 28, 2008, we issued 1,750,000 Series A Preferred shares and detachable five-year warrants to purchase 3,000,000 of our ordinary shares at an exercise price of $0.35 per share for gross proceeds of $3.5 million. During May and June 2008, we issued 497,500 Series B Preferred shares and detachable five-year warrants to purchase 425,860 of our ordinary shares at an exercise price of $0.60 per share for gross proceeds of $1.0 million. On June 24, 2008, we completed a private placement of 1,041,667 ordinary shares and detachable warrants to purchase 734,374 of our ordinary shares at exercise prices ranging from $0.60 to $0.90 for gross proceeds of $0.5 million. We used the $5.0 million proceeds from these offerings to develop and market our services during 2008.

(Expressed in U.S. Dollars)

IPO

On September 5, 2008, we completed our IPO consisting of 17,000,000 Units, each Unit consisting of one ordinary share and one-half of one ordinary share purchase warrant. Each whole 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. Net proceeds were $8.1 million and we have used $7.4 million of these proceeds to develop and market our services through June 30, 2009.

Cashflows

As of June 30, 2009, we had total cash on hand of $689,577 and a working capital deficit of $786,291.

During the six months ended June 30, 2009 and 2008, we had cash outflows from operations of $4,384,323 and $3,599,742, respectively. This increase was a result of increased marketing efforts and increased general and administrative expense resulting from our growth during the six months ended June 30, 2009 as compared to the six months ending June 30, 2008.

Cash flows used for investing activities decreased to $52,122 during the six months ended June 30, 2009 from $226,405 during the six months ended June 30, 2008 mainly as a result of decreased expenditures for information technology systems designed and implemented to handle our increased customer base.

Cash flows from financing activities decreased to an inflow of $8,426 during the six months ended June 30, 2009 from a net inflow of $4,528,858 during the six months ended June 30, 2008 as a result of the following financings:

	Six Months Ended June 30,	
	2009	**2008**
Proceeds from issuance of Series A and Series B Preferred shares and warrants	—	$ 4,495,000
Proceeds from issuance of ordinary shares and warrants	—	500,000
Proceeds from exercise of warrants and stock options, net	9,803	8,333
Deferred IPO costs and redeemable convertible preferred shares and warrants issuance costs	—	(473,286)
All other, net	(1,377)	(1,189)
Net cash provided by financing activities	$ 8,426	$ 4,528,858

Commitments

In July 2009, the Company entered into a five year exclusive data agreement with a major supplier of nationwide public record information to supply the Company with its data for its identity theft monitoring and resolution services. The agreement calls for minimum spending commitments by the Company for the data information as follows:

Contract Year	Minimum Spending Commitment
Contract Year 1	$ 4,000,000
Contract Year 2	$ 6,000,000
Contract Year 3	$ 8,000,000
Contract Year 4 and 5 and each annual renewal period................	$ 10,000,000

In additional to the commitment for data information, the Company has committed to spend monies on marketing and promotion expenses on an annual amount corresponding with the contract year of the agreement as follows:

Contract Year	Minimum Marketing Spending Commitment
Contract Year 1	$ 25,000,000
Contract Year 2	$ 50,000,000
Contract Year 3	$ 75,000,000
Contract Year 4 and 5 and each annual renewal period	$ 100,000,000

The agreement has certain cancelation provisions if the commitments are not met.

Capital resources

On June 30, 2009, we had stock options outstanding denominated in U.S. dollars to purchase 3,195,000 ordinary shares. In addition, we had stock options outstanding denominated in Canadian dollars to purchase 1,342,000 ordinary shares as of June 30, 2009. If exercised, these stock options would generate approximately $1.4 million and CDN$0.8 million in additional cash, respectively.

At June 30, 2009 we had warrants outstanding denominated in Canadian dollars which are exercisable for 15,163,617 ordinary shares and which, if exercised, would generate approximately CDN$13.2 million in additional cash. In addition, at June 30, 2009, we had 19,898,284 warrants outstanding denominated in U.S. dollars that contain cashless exercise provisions, which, upon certain conditions, permit the holder to exercise their warrants on a net cash exercise basis and receive ordinary shares without payment of any cash consideration. It is unlikely that we will receive any of the approximately $7.9 million potential total cash proceeds from the exercise of these warrants if they are exercised due to the aforementioned cashless exercise provisions.

During June 2009, holders of our convertible debentures converted $3,461,200 of the convertible debentures into 12,361,430 ordinary shares of the Company. The conversion price of the convertible debentures is $0.28 per ordinary share. At June 30, 2009, $80,000 of our convertible debentures remains outstanding. The Company has obtained or expects to obtain an extension of time from the holders to redeem the outstanding amounts or convert into ordinary shares the outstanding balance. The convertible debentures matured on either June 19, or July 17, 2009.

Our business plan implemented during the second quarter of 2009, calls for maintaining the current level of customers during the year until we obtain additional financing in order to fund customer growth. We plan to hold gross margins steady in 2009 and plan to decrease general and administrative expenses and marketing expenses to achieve a positive cash flow.

The Company has $690 thousand of cash and cash equivalents on hand at June 30, 2009. The Company is seeking additional financing in order to fund its revenue growth and the development of new and enhanced products. In the absents of additional financing, the Company has developed a plan to subsist on its existing cash and cash flow generated from 2009 gross profits. The Company believes this will provide working capital for use in connection with its short term business plan. Additional financing sought by the Company may include the issuance of ordinary shares or debt instruments in order to meet it cash requirements and fund it business plan.

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.

Outstanding share data:

We are authorized to issue up to 450,000,000 ordinary shares and up to 450,000,000 preferred shares. As of August 17, 2009, we have the following equity securities outstanding:

- 62,600,171 ordinary shares.
- 19,898,284 warrants, each of which is exercisable for one ordinary share at prices ranging from $0.35 to $0.90.
- 15,163,617 warrants, each of which is exercisable for one ordinary share at prices ranging from CDN$0.60 to CDN$0.90.
- 3,195,000 stock options, each of which is exercisable for one ordinary share at prices ranging from $0.15 to $0.60 per share.
- 1,342,000 stock options, each of which is exercisable for one ordinary share at CDN$0.60 per share.
- convertible debentures convertible into 285,714 ordinary shares.

Off-balance sheet arrangements:

We did not have off-balance sheet arrangements during the quarter ended June 30, 2009 or as of December 31, 2008.

Transactions with related parties:

Except for the transactions described above, we have not been a party to any transactions with related parties during the six months ended June 30, 2009.

Contingencies:

The Company is involved in various other 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.

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.

(Expressed in U.S. Dollars)

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 June 30, 2009 and 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
At June 30, 2009:				
Derivative contract liabilities – warrants	$ 106,640	—	$ 106,640	—
At December 31, 2008:				
Derivative contract liabilities – warrants.........	$ 21,983	$ —	$ 21,983	$ —

Effective January 1, 2008, the Company 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, 2009 the Company adopted 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. The adoption of EITF 07-5 did not have an impact on the Company's consolidated financial statements.

Effective January 1, 2009 the Company adopted 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.

Recently issued accounting pronouncements:

In May 2009, the FASB issued SFAS No. 165 "Subsequent Events" ("SFAS 165"). This Statement sets forth the period after the balance sheet date during which management or a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. It requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. Our adoption of SFAS 165 on June 30, 2009 did not have a material impact on our consolidated financial statements. See Note 7 – Commitments for additional information.

In June 2009, the FASB issued SFAS 168 "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162" ("SFAS 168"). This Statement states that the *FASB Accounting Standards Codification* ("Codification") will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Once effective, the Codification's content will carry the same level of authority and effectively supersede SFAS 162. Thus, the U.S. GAAP hierarchy will be modified to include only two levels of U.S. GAAP: authoritative and non-authoritative. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We are currently evaluating the potential impact, if any, of the adoption of SFAS 168 on our consolidated financial statements.

In June 2008, the FASB's Emerging Issues Task Force ("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. The adoption of EITF 07-05 did not have an impact on the Company's consolidated 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. Our 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 our 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 our consolidated financial statements.

Financial instruments and other instruments:

We use various types of financial instruments to fund our business capital requirements, including convertible debt and redeemable convertible preferred shares indexed to the market price of our ordinary shares. We evaluate these financial instruments to determine whether derivative features embedded in host contracts require bifurcation and fair value measurement. As a result of our evaluation, our convertible debentures and our redeemable convertible preferred shares did not require bifurcation and fair value measurement of derivative features.

At June 30, 2009, we had $80,000 of convertible debentures outstanding. These financial instruments are included in our consolidated balance sheets under the caption convertible debentures at an amortized cost of $80,000 which approximates fair value. Original debt discount of $345,115 associated with our outstanding convertible debentures represents the original fair value of the detachable warrants that were issued in conjunction with our convertible debentures. This debt discount was amortized using the straight-line method, which approximates the effective interest method, as interest expense over the two-year life of the convertible debentures, which are due in June and July 2009. During the three and six months ended June 30, 2009 and 2008, we recognized non-cash interest expense applicable to discount amortization of $41,759, $84,215, $48,439 and $93,380, respectively.

In addition, we incurred $627,754 of debt offering costs associated with the issuance of our convertible debentures and these costs are included in our consolidated balance sheets under the caption debt offering costs, net. Our debt offering costs were amortized as interest expense over the two-year life of the convertible debentures using the straight-line method which approximates the effective interest method. During the three and six months ended June 30, 2009 and 2008, we recognized non-cash interest expense of $78,387, $160,072, $81,685 and $163,369, respectively in each of the periods, relating to amortization of our debt offering costs. Unamortized debt offering costs were nil and $160,072 at June 30, 2009 and December 31, 2008, respectively.

During the six months ended June 30, 2008, we issued $4,495,000 of 12% redeemable convertible preferred shares along with warrants to purchase ordinary shares. All of these shares and all accrued dividends payable applicable to these shares converted into IPO Units on September 5, 2008.

The fair value of the warrants in the amount of $420,265 and the fair value of the beneficial conversion feature in the amount of $2,077,051 associated with these shares were initially recorded as discounts to redeemable convertible preferred shares and $1,098,212 of these discounts were amortized to expense during the six months ended June 30, 2008. We also accrued dividends payable of $186,088 during the six months ended June 30, 2008. As a result, during the six months ended June 30, 2008, we recognized a total of $1,284,300 non-cash expense applicable to our redeemable convertible preferred shares.

During 2008, we issued 15,183,528 two-year detachable warrants to purchase our ordinary shares at exercise prices ranging from CND$0.60 to CND$0.90. Since these warrants are denominated in a currency that is different from our functional currency (the U.S. dollar) the fair value of these warrants are recorded as a derivative contract liability and the fair value is re-measured at the end of each reporting period with any change in fair value recorded as a gain or loss on derivative contract liability in our consolidated statements of operations. The fair value of the derivative contract liabilities is measured using the Black-Scholes valuation model.

We have limited exposure to credit risk as sales to customers are usually immediately paid by credit card. Our reserve for refunds and credit card charge backs was $36,628 at June 30, 2009 and our accounts receivable balance was $128,550 at June 30, 2009. Currently, we do not have significant credit risk exposure due to the small magnitude of these balances and the nature of our operations.

Currently, our interest rate risk exposure is limited as all our outstanding debt at June 30, 2009 has fixed interest rates and the impact of interest rate changes on our other financial instruments (mainly derivative contract liabilities) would be minimal. At June 30, 2009 we had nil of cash and cash equivalents denominated in Canadian dollars. In May 2009 we converted the Canadian denominated dollars to $254,948 US dollars.

The fair market value of our derivative contract liabilities is very sensitive to the market price of our ordinary shares and our estimate of share price volatility. Our consolidated audited financial statements for the year ended December 31, 2008 and related MD&A contains additional information regarding our derivative contract liabilities. Additional information may be found in these reports.

Outlook:

We are a start-up company. As such, key statistics such as customer retention rates, cost of customer acquisition, and lifetime revenue per customer are not yet well established.

Our future revenues depend on the successful marketing of our services. Our marketing campaigns have to attract sufficient business to produce revenue that will enable us to meet our operating expenses and fund our future growth plans. During the three months ended June 30, 2009, we enrolled approximately 54,000 new customers and as of June 30, 2009, we had approximately 40,000 customers with active subscriptions. An active customer is defined as a customer who has paid monthly subscription fee and is no more than 60 days past due.

We are also facing new and existing competitors engaged in providing solutions for identity theft. Our future operations will require monitoring the marketplace for items such as service pricing, service innovations and marketing strategies.

Because we have been in commercial operation for a short period of time, our revenue, cost of revenue, gross profit and net loss reported for the three and six months ended June 30, 2009, may not be indicative of future results. We have invested in our infrastructure in order to make the delivery of our services highly automated and, therefore, if we grow our customer base, we expect that our gross profits will improve as our revenue growth expands. We are dependent upon our existing cash balances, along with our expected cash flow generated from gross profits to satisfy our marketing expenditures, general and administrative expenses, and cash interest payments relating to our current operations and planned growth during the short term. However, if we are not successful in acquiring and retaining customers at anticipated rates we will need additional financing to continue, grow and sustain our business.

Forward-looking statements:

Our MD&A contains "forward-looking information" that is based on ID Watchdog, Inc.'s expectations, estimates and projections as of the dates as of which those statements were made. This forward-looking information includes, among other things, statements with respect to ID Watchdog, Inc.'s business and marketing strategies, plans, outlook, services, projections, targets and expectations as to future revenue, gross profit margins, liquidity and cash flow from operations, working capital requirements, projections regarding new customers, active customers and customer retention rates, currency exchange rates, expectations regarding industry trends, and competitive position in the marketplace. Generally, this forward-looking information can be identified by the use of forward-looking terminology such as "outlook", "anticipate", "project", "target", "believe", "estimate", "expect", "intend", "should", "scheduled", "will", "plan" and similar expressions. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause ID Watchdog, Inc.'s actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to:

- Uncertainties related to and our limited operating history;
- Uncertianties associated with sufficient operating income and future losses;

- Uncertainties associated with marketing studies and strategies;
- Uncertainties associated with market acceptance of our services;
- Uncertainties associated with market competition;
- Uncertainties over future products we envisage from our new Acxiom relationship may never achieve market acceptance;
- Risks related to operating in consumer information services regulated by federal and state laws of consumer data and consumer advertising;
- Risks related to a responsibility to secure active and former customer data from any potential data breach and any costs to compensate the customer for such breach;
- Uncertainties associated with general economic conditions;
- Uncertainties related to our dependence upon outside suppliers to provide us databases which enable us to provide our services to customers;
- Reliance upon merchant banks to process credit card payments;
- Risks related to credit card payment processing rules and restrictions relating to excessive chargebacks;
- Uncertainties pertaining to our ability to protect our intellectual property including service marks, trademarks and patents;
- Uncertainties relating to claims from others that our intellectual property has infringed on the proprietary right of others;
- Changes in laws that allow consumers to access personal information records and give consumers the right to request correction of inaccurate records;
- Interpretations of insurance and credit services regulations that would cause our services to be subject to such regulations;
- Uncertainties related to obtaining additional funding;
- Uncertainties related to fluctuations in Canadian and US dollar exchange rates;
- Uncertainties related to adequacy or effectiveness of internal controls;
- Reliance on key personnel; and
- Uncertainties related to legal proceedings.

A discussion of these and other factors that may affect our actual results, performance, achievements or financial position is contained in our filings with the Canadian provincial securities regulatory authorities. This list is not exhaustive of the factors that may affect our forward-looking information. These and other factors should be considered carefully and readers should not place undue reliance on such forward-looking information. Forward-looking statements contained in this MD&A are based on the beliefs, expectations and opinions of management on the date the statements are made, and the company does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by law.