**ID WATCHDOG, INC.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**DECEMBER 31, 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 year ended December 31, 2009 has been prepared based on information available to us as of March 11, 2010 and is intended to be read in conjunction with our audited consolidated financial statements and related notes for year ended December 31, 2009. 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 December 31, 2009, of CDN$1.00 = US$0.9515.

## 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 years, we had marketing expenditures of $1.4 million in 2007, $8.3 million during 2008 and $7.7 million during 2009.

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."

In November 2009, we completed a private placement for the sale of $1,703,880 in Senior Extendible Deferred Convertible Notes with an interest rate of 10% (the "10% Notes"). After underwriting expenses, we received $1.342 million. Interest is paid monthly from an escrow account funded with a deduction from the proceeds of the private placement to pay the interest to the 10% Note holders for the first year. The 10% Notes mature on April 19, 2010 and are extendable, subject to certain provision, to September 30, 2010. The 10% Notes can be prepaid at any time at 110% of the principal amount if on or before the maturity date and at 120% thereafter. If the principal amount of the 10% Notes are not repaid at April 19, 2010, the 10% Notes may be convertible, at the option of the noteholder, at a price per share that is 30% below either (i) the offering price per share for shares of Ordinary Shares issued or reserved for issuance in an equity financing by the Company in the United States which is consummated after the October 21, 2009 and prior to September 30, 2010 or (ii) if clause (i) is not applicable, the average closing price of the Ordinary Shares on the TSX Venture Exchange for the 10 trading days preceding a conversion, but, so long as the Ordinary Shares are still trading on the TSX Venture Exchange, in no event shall the conversion price be less than U.S. $0.2569 per share (the closing price of the Ordinary Shares on the TSX Exchange on October 21, 2009). Assuming the conversion price to be $0.2569 per share, the 10% Notes may be convertible per $1,000 in principal amount of the 10% Notes, into an aggregate of 6,632,453 Ordinary Shares. Purchasers of the 10% Notes received warrants to purchase 3,315,750 ordinary shares at an exercise price determined by formula equal to 110% of the issue price of a subsequent financing before September 30, 2010 of an amount greater than $7.5 million or in the absence of a subsequent financing, the exercise price is $0.2929 per share but, in no event less that the conversion price ($0.2569 per share) of the Notes. In addition, if the 10% Notes are not repaid in full on or before the maturity date, then each purchaser shall receive warrants to purchase the same number of ordinary shares as previously received by the purchaser or an additional 3,315,750 warrants. Agents for the Company received 617,529 warrants as part of their compensation with the same terms as the warrants issued to the noteholders. These convertible Notes and warrants have anti-dilution provisions that upon the subsequent sale or issuance of securities may cause a reduction of the outstanding convertible notes' conversion price and warrants' exercise price. The 10% Notes and warrants issued with the 10% Notes agreement has a registration rights agreement that call for at any time during the period beginning December 31, 2011, until December 30, 2014, holders have a one-time right by written notice of no less that 50.1% of the securities and underlying securities included in the 10% Note private placement to demand that the Company register all included and underlying securities. See Note 5 for additional information.

In February 2010, we completed the first closing of $767,100 in a private placement for the sale of $1,500,000 in convertible notes with an interest rate of 10% (the "2010 10% Notes"). From the first closing and after underwriting expenses, we received $593,173 plus an additional amount of $88,216 which was deposited into an escrow account to for interest payments. Interest is paid monthly from an escrow account funded by a deduction from the proceeds of the private placement to pay the interest to the 2010 10% Note holders for the first year. The 2010 10% Notes mature on August 10, 2010 and are extendable, subject to certain provisions, to February 6, 2011. The 2010 10% Notes can be prepaid at any time at 110% of the principal amount if on or before the maturity date and at 120% thereafter. Purchasers of the 2010 10% Notes received warrants to purchase 1,370 ordinary shares per $1,000 invested in the 2010 10% Notes at an exercise price determined by formula equal to 110% of the issue price of a subsequent financing before February 6, 2011 of an amount greater than $7.5 million or in the absents of a subsequent financing, the exercise price is $0.365 per share but, in no event less that the conversion price of the Notes. In addition, if the 2010 10% Notes are not repaid in full on or before the maturity date, then each purchaser shall receive warrants to purchase the same number of ordinary shares as previously received by the purchaser. These convertible notes and warrants have anti-dilution provisions that upon the subsequent sale or issuance of securities may cause a reduction of the outstanding convertible notes' conversion price and warrants' exercise price. The 2010 10% Notes and warrants issued with the 2010 10% Notes agreement has a registration rights agreement that call for at any time during the period beginning December 31, 2011, until December 30, 2014, holders have a one-time right by written notice of no less that 50.1% of the securities and underlying securities included in the 2010 10% Note private placement to demand that the Company register all included and underlying securities. We believe this financing will provide working capital for use in connection with its short term business plan. We are pursuing other sources of financing to meet our obligations, repay our liabilities and fund the Company's business plan.

On December 31, 2009, we had $488,689 of cash and cash equivalents on hand. In addition, we had $171,752 of restricted cash available to pay the interest payments on the 10% Notes.

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 2009, we began to focus our marketing efforts on additional marketing affiliate relationships and Internet affiliates and decreased our direct response campaigns. We altered our business plan during the 2nd quarter of 2009 because certain of the marketing affiliate relationships did not provide new customers at a satisfactory cost.

Our business plan implemented during the second quarter of 2009, called for maintaining the current level of customers during the year until we obtain additional financing in order to fund customer growth. We were not able to maintain our level of customers in the last half of 2009 and thus experienced a decline in customers from 34,000 at June 30, 2009, to 25,000 at December 31, 2009. Our business plan for 2010 calls for maintaining our current level of customers while we structure the Company for a cash-flow neutral and then a positive cash flow position and then returning to growing our customers base beginning in the second quarter of 2010.

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 a new product called idCHECK℠. idCHECK℠ is a single-use identity theft product that allows consumers to instantly determine whether or not their personal information has ever been accessed by identity thieves. idCHECK is available as a standalone product or as a complement to our existing other three services. We believe our other three services and with the addition of idCHECK will benefit our customers by detecting and resolving identity theft and other consumer report data problems. Our services, ID Watchdog℠, ID SnapShot℠ and ID Rehab℠ are specifically designed to work together and are generally offered together through our ID Watchdog Plus℠ plan for a monthly, annual or multi-year subscription fee. Our ID Watchdog℠ 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℠ 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℠ 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 11 to the consolidated financial statements.

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| Revenue | $ 5,907,602 | $ 4,688,290 | $ 159,681 |
| Gross profit | 4,541,501 | 3,559,495 | 72,693 |
| Operating expense | (12,270,158) | (11,643,833) | (2,816,530) |
| Operating loss | (7,728,657) | (8,084,338) | (2,743,837) |
| Net loss | (8,768,122) | (8,144,754) | (3,120,374) |
| Dividends, deemed dividends and accretion of discount related to redeemable convertible preferred shares | — | (2,782,704) | — |
| Net loss applicable to ordinary shares | $ (8,768,122) | $ (10,927,458) | $ (3,120,374) |
| Basic and diluted net loss per share | $ (0.15) | $ (0.37) | $ (0.17) |

| | **December 31, 2009** | **December 31, 2008** | **December 31, 2007** |
|---|---|---|---|
| **Balance Sheet Data:** | | | |
| Cash and cash equivalents (including restricted cash of $171,752 at December 31, 2009) | $ 660,441 | $ 5,117,596 | $ 631,665 |
| Total assets | $ 1,511,564 | $ 6,175,539 | $ 1,408,385 |
| Total long-term liabilities | $ 5,406 | $ 7,854 | $ 3,466,425 |
| Total liabilities | $ 4,711,632 | $ 4,372,283 | $ 3,930,493 |
| Total shareholders' equity (deficit) | $ (3,200,068) | $ 1,803,256 | $ (2,522,108) |

**Summary of quarterly results - unaudited:**

| | **2009 Quarter 4** | **2009 Quarter 3** | **2009 Quarter 2** | **2009 Quarter 1** |
|---|---|---|---|---|
| Revenue | $ 1,340,975 | $ 1,422,746 | $ 1,929,860 | $ 1,214,021 |
| Net loss | $(1,828,025) | $(1,271,082) | $(1,686,342) | $(3,982,673) |
| Net loss applicable to ordinary shares | $(1,828,025) | $(1,271,082) | $(1,686,342) | $(3,982,673) |
| Basic and diluted net loss per share | $ (0.03) | $ (0.02) | $ (0.03) | $ (0.08) |

| | **2008 Quarter 4** | **2008 Quarter 3** | **2008 Quarter 2** | **2008 Quarter 1** |
|---|---|---|---|---|
| Revenue | $ 1,409,959 | $ 1,282,631 | $ 1,104,374 | $ 891,326 |
| Net loss | $(1,782,714) | $(1,866,300) | $(2,583,736) | $(1,912,004) |
| Net loss applicable to ordinary shares | $(1,782,714) | $(3,364,704) | $(3,140,487) | $(2,639,553) |
| Basic and diluted net loss per share | $ (0.04) | $ (0.11) | $ (0.16) | $ (0.13) |

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. Our revenue declined in the third quarter of 2009 as compared to the second quarter of 2009 as a result of our efforts to reduce expenditures and conserve cash. Our revenues declined in the fourth quarter of 2009 as compared to the third quarter of 2009 as we continued to reduce expenditures, however, we were able to maintain our fourth quarter gross profit at approximately $1,060,000.

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 decreased during the third quarter of 2009 as compared to the second quarter 2009 primarily as a result of a $1 million decrease in marketing expenses, a decrease in general and administrative expenses and a reduction in interest expense due to the conversion of the convertible debentures into the Company's ordinary shares during the second quarter of 2009. These third quarter decreases were offset by the $781,960 non-cash gain reported in the second quarter of 2009. Our net loss increased $556,943 during the fourth quarter of 2009 as compared to the third quarter of 2009 mainly due to $430,000 of additional interest expense incurred during the fourth quarter of 2009 which relates to the issuance of the sale of $1,703,880 in Senior Extendible Deferred Convertible Notes with an interest rate of 10% (the "10% Notes"). Fourth quarter interest expense includes $137,457 of non-cash amortization of debt offering costs and $250,204 of non-cash amortization of debt discounts. In addition, during the fourth quarter ending December 31, 2009, we recorded a $238,700 loss on derivative contract liabilities related to warrants denominated in Canadian dollars, the issue of warrants and a beneficial conversion feature related to our 10% senior extendible deferred convertible notes issued in the fourth quarter of 2009. An improvement in operating loss by $210,000 in the fourth quarter 2009 as compared to 2008 offset the additional expenses from above.

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. Our net loss applicable to ordinary shares decreased during the third quarter of 2009 as compared to the second quarter of 2009 due to the described changes in the net loss. Our net loss applicable to ordinary shares increased during the fourth quarter of 2009 as compared to the third quarter of 2009 due to the described changes in the net loss above.

**Results of operations:**

***Comparison of the year ended December 31, 2009 to the year ended December 31, 2008***

***Revenue and gross profit***

For the years ended December 31, 2009 and 2008, we recognized revenue of $5,907,602 and $4,688,290, respectively, from the sale of our services. Our cost of revenue for the year ended December 31, 2009, was $1,366,101 resulting in a gross profit of $4,541,501, while our cost of revenue for the year ended December 31, 2008, was $1,128,795 resulting in a gross profit of $3,559,495. Our revenue, cost of revenue and gross profit increased during 2009 as compared to 2008, as we implementated our marketing plans in the first and second quarters to acquire new customers.

***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 2009, was $7,659,983 as compared to $8,264,961 for 2008. This decrease reflects the Company's plans to decrease marketing expenses in the third and fourth quarters of 2009 in order to conserve cash.

In January 2008, we entered into a month-to-month services agreement with Veracity Credit Consultants, LLC ("VCC"), an entity controlled by Justin Yurek, a Vice President and former President of ID Watchdog, to provide call center facilities and call center services at prevailing market rates. We incurred $262,469 and $248,599 of related party call center marketing expense relating to this arrangement during 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 $4,610,175 and $3,378,872 during 2009 and 2008, respectively. This $1,231,303 increase in general and administrative expense was due in part to a $475,000 increase in consulting expense related to information system maintenance and improvements and a $422,000 increase in non-marketing wages and related expense resulting from increased headcount and increased compensation expense due to the 2009 year containing a full year expense for certain employees as compared to a partial year in 2008 and also due to increases in compensation levels. Also, during 2009, legal and accounting expense increased $189,000 over 2008 resulting from increased consulting expenses relating to reporting and regulatory requirement of a public company and our information systems network expense increased by $50,000 due to an increase in the requirements of our information systems network. Depreciation expense increased by $89,000 in 2009 due to 2008 capital asset acquisitions and related-party consulting expense increased by $76,785 as explained below. Other office-related general and administrative expenses decreased by $70,000 accounting for the remaining 2009 change.

During 2009, we incurred related party consulting expense of $339,569 as compared to $262,784 during 2008, an increase of $76,785. During 2009, we incurred $199,664 of consulting expense for services from Daryl Yurek, our Chairman and CEO, as compared to $162,288 in 2008. This increase was a result of an increase in compensation rates. Consulting services provided by one of our directors decreased to $87,409 in 2009 from $93,000 in 2008 and consulting services provided by VCC increased to $17,496 in 2009 from $7,496 in 2008. During 2009, consulting services were provided by Bolder Venture Partners, an entity controlled by Daryl Yurek, the Chief Executive Officer of ID Watchdog. We incurred $35,000 of consulting services relating to services provided by Bolder Venture Partners during 2009 at prevailing market rates. The increases mentioned above, reflect increased compensation rates and increased levels of service provided by these individuals 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 matured in June and July 2009. All of the convertible debentures converted into the Company's ordinary shares prior to September 2009.

In November 2009, we completed a private placement for the sale of $1,703,880 in Senior Extendible Deferred Convertible Notes that bear interest at 10% per annum and mature April 19, 2010 and are extendable, subject to certain provisions, to September 30, 2010.

Interest expense during the years ended December 31, 2009 and 2008 totalled $837,458 and $843,098, respectively. These amounts included non-cash amortization of debt offering costs of $297,529 and $326,738 during the years ended December 31, 2009 and 2008, respectively. Interest expense also included non-cash amortization of debt discount of $334,419 and $184,632 during each of the periods in 2009 and 2008, respectively. The non-cash amortization of debt offering costs and the non-cash amortization of debt discount includes amounts from both the debentures issued in 2007 and the Convertible Notes issued in 2009.

***Loss on derivative contract liabilities***

During 2009, we recorded a $223,418 loss on derivative contract liabilities related to warrants denominated in Canadian dollars, the issue of warrants and a beneficial conversion feature related to our 10% senior extendible deferred convertible notes issued in the fourth quarter of 2009 as explained below.

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 year ended December 31, 2009, we incurred a non-cash gain of $11,262 as compared to a non-cash gain of $757,722 during the year ended December 31, 2008 related to the change in fair value of our derivative contract liabilities on the warrants issued with our IPO. The change in the fair value of our derivative contract liabilities was mainly a result of a decrease in the expected life of the warrants from 1.72 years at December 31, 2008 to 0.72 years at December 31, 2009.

We have recorded the fair value of our warrants issued in the fourth quarter of 2009 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. 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 2.3%, estimated expected volatility of 38% and no dividends. The value assigned to the detachable warrants and placement agent warrants during October 2009 is $310,530 using the Black-Scholes option-pricing model and is included in derivative contract liabilities on the Company's consolidated balance sheets. The warrants are adjusted to reflect fair value, using the Black-Scholes option-pricing model, 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. At December 31, 2009, the fair value of these derivative instruments is $554,000 which resulted in a loss of $243,470 for the year ended December 31, 2009.

The 10% Notes were determined to have a beneficial conversion feature because the conversion price was less than the market value of the Company's ordinary shares at the time of issuance. The intrinsic value assigned to the beneficial conversion feature during October 2009 is $323,790 and is included in derivative contract liabilities on the Company's consolidated balance sheets. The beneficial conversion feature is adjusted to reflect fair value, using the Black-Scholes option-pricing model, 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. At December 31, 2009, the fair value of these derivative instruments is $315,000 which resulted in a gain of $8,790 for the year ended December 31, 2009.

***Expense applicable to redeemable convertible preferred shares***

We did not incur expense applicable to redeemable convertible preferred shares during the year ended December 31, 2009 since the Company's outstanding convertible preferred shares were converted into ordinary shares of the Company in 2008.

## Liquidity and capital resources:

***Recent financings***

***Private Placement – 10% Senior Extendible Deferred Convertible Notes***

In November 2009, we completed a private placement for the sale of $1,703,880 in Senior Extendible Deferred Convertible Notes with an interest rate of 10% (the "10% Notes"). After underwriting expenses, we received $1.342 million. Interest is paid monthly from an escrow account funded with a deduction from the proceeds of the private placement to pay the interest to the 10% Note holders for the first year. The 10% Notes mature on April 19, 2010 and are extendable, subject to certain provision, to September 30, 2010. The 10% Notes can be prepaid at any time at 110% of the principal amount if on or before the maturity date and at 120% thereafter. If the principal amount of the 10% Notes are not repaid at April 19, 2010, the 10% Notes may be convertible, at the option of the noteholder, at a price per share that is 30% below either (i) the offering price per share for shares of Ordinary Shares issued or reserved for issuance in an equity financing by the Company in the United States which is consummated after the October 21, 2009 and prior to September 30, 2010 or (ii) if clause (i) is not applicable, the average closing price of the Ordinary Shares on the TSX Venture Exchange for the 10 trading days preceding a conversion, but, so long as the Ordinary Shares are still trading on the TSX Venture Exchange, in no event shall the conversion price be less than U.S. $0.2569 per share (the closing price of the Ordinary Shares on the TSX

Exchange on October 21, 2009). Assuming the conversion price to be $0.2569 per share, the 10% Notes may be convertible per $1,000 in principal amount of the 10% Notes, into an aggregate of 6,632,453 Ordinary Shares. Purchasers of the 10% Notes received warrants to purchase 3,315,750 ordinary shares at an exercise price determined by formula equal to 110% of the issue price of a subsequent financing before September 30, 2010 of an amount greater than $7.5 million or in the absence of a subsequent financing, the exercise price is $0.2929 per share but, in no event less that the conversion price ($0.2569 per share) of the Notes. In addition, if the 10% Notes are not repaid in full on or before the maturity date, then each purchaser shall receive warrants to purchase the same number of ordinary shares as previously received by the purchaser or an additional 3,315,750 warrants. Agents for the Company received 617,529 warrants as part of their compensation with the same terms as the warrants issued to the noteholders. These convertible Notes and warrants have anti-dilution provisions that upon the subsequent sale or issuance of securities may cause a reduction of the outstanding convertible notes' conversion price and warrants' exercise price. The 10% Notes and warrants issued with the 10% Notes agreement has a registration rights agreement that call for at any time during the period beginning December 31, 2011, until December 30, 2014, holders have a one-time right by written notice of no less that 50.1% of the securities and underlying securities included in the 10% Note private placement to demand that the Company register all included and underlying securities. See Note 5 in the consolidated financial statements for additional information.

***Private Placement – 10% Extendible Convertible Notes***

In February 2010, we completed the first closing of $767,100 in a private placement for the sale of $1,500,000 in convertible notes with an interest rate of 10% (the "2010 10% Notes"). From the first closing and after underwriting expenses, we received $593,173 plus an additional amount of $88,216 which was deposited into an escrow account to for interest payments. Interest is paid monthly from an escrow account funded by a deduction from the proceeds of the private placement to pay the interest to the 2010 10% Note holders for the first year. The 2010 10% Notes mature on August 10, 2010 and are extendable, subject to certain provisions, to February 6, 2011. The 2010 10% Notes can be prepaid at any time at 110% of the principal amount if on or before the maturity date and at 120% thereafter. Purchasers of the 2010 10% Notes received warrants to purchase 1,370 ordinary shares per $1,000 invested in the 2010 10% Notes at an exercise price determined by formula equal to 110% of the issue price of a subsequent financing before February 6, 2011 of an amount greater than $7.5 million or in the absents of a subsequent financing, the exercise price is $0.365 per share but, in no event less that the conversion price of the Notes. In addition, if the 2010 10% Notes are not repaid in full on or before the maturity date, then each purchaser shall receive warrants to purchase the same number of ordinary shares as previously received by the purchaser. These convertible notes and warrants have anti-dilution provisions that upon the subsequent sale or issuance of securities may cause a reduction of the outstanding convertible notes' conversion price and warrants' exercise price. The 2010 10% Notes and warrants issued with the 2010 10% Notes agreement has a registration rights agreement that call for at any time during the period beginning December 31, 2011, until December 30, 2014, holders have a one-time right by written notice of no less that 50.1% of the securities and underlying securities included in the 2010 10% Note private placement to demand that we register all included and underlying securities. The Company believes this financing will provide working capital for use in connection with its short term business plan. The Company is pursuing other sources of financing to meet its obligations, repay its liabilities and fund the Company's business plan.

(Expressed in U.S. Dollars)

### *Cashflows*

As of December 31, 2009, we had total cash on hand of $488,689 and $171,752 in restricted cash designated to pay the interest payments on the 10% Senior Extendible Deferred Convertible Notes and a working capital deficit of $3,571,073.

During the year ended December 31, 2009 and 2008, we had cash outflows from operations of $5,752,608 and $7,860,966, respectively. This decrease was a result of decreased marketing efforts and increased revenue during 2009 and from increased marketing expense in 2008.

Cash flows used for investing activities decreased to $52,721 during 2009 from $535,532 during 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 increased to $1,177,917 during 2009 from $12,882,429 during 2008 as a result of the following financings:

| | Year Ended December 31, 2009 | Year Ended December 31, 2008 |
|---|---|---|
| Proceeds from issuance of 10% senior extendible deferred convertible notes and warrants | $ 1,703,880 | — |
| Change in restricted cash | (171,752) | — |
| 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, net | | 7,621,710 |
| Proceeds from exercise of warrants and stock options, net | 9,803 | 268,154 |
| Deferred private placement costs | (361,566) | — |
| All other, net | (2,448) | (2,435) |
| Net cash provided by financing activities | $ 1,177,917 | $ 12,882,429 |

### *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, in order to maintain an exclusive arrangement, 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. We are currently not on track to meet its marketing and promotion expense annual commitment and therefore, may lose its exclusive arrangement.

***Capital resources***

On December 31, 2009, we had stock options outstanding denominated in U.S. dollars to purchase 5,171,944 ordinary shares. In addition, we had stock options outstanding denominated in Canadian dollars to purchase 1,324,258 ordinary shares as of December 31, 2009. If exercised, these stock options would generate approximately $2.2 million and CDN$0.8 million in additional cash, respectively.

At December 31, 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 December 31, 2009, we had 23,853,870 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 $8.8 million potential total cash proceeds from the exercise of these warrants if they are exercised due to the aforementioned cashless exercise provisions.

As of December 31, 2009, all of the 9% convertible debentures outstanding at December 31, 2008 ($3,566,200) converted into the Company's ordinary shares (12,736,430 shares).

Our business plan implemented during the second quarter of 2009, called for maintaining the current level of customers during the year until we obtain additional financing in order to fund customer growth. We were not able to maintain our level of customers in the last half of 2009 and thus experienced a decline in customers from 34,000 at June 30, 2009, to 25,000 at December 31, 2009. Our business plan for 2010 calls for maintaining our current level of customers while we structure the Company for a cash-flow neutral and then a positive cash flow position and then returning to growing our customers base beginning in the second quarter of 2010.

The Company has $489 thousand of cash and cash equivalents on hand at December 31, 2009. In November 2009, the Company completed a private placement for the sale of $1,703,880 in Senior Extendible Deferred Convertible Notes with an interest rate of 10% (the "10% Notes"). The 10% Notes mature April 19, 2010 and are extendable, subject to certain provision, to September 30, 2010. See Note 5 in the consolidated financial statements for additional information.

In February 2010, the Company completed the first closing of $767,100 in a private placement for the sale of $1,500,000 in convertible notes with an interest rate of 10% (the "2010 10% Notes"). From the first closing and after underwriting expenses, the Company received $593,173 plus an additional amount of $88,216 which was deposited into an escrow account to for interest payments. Interest is paid monthly from an escrow account funded by a deduction from the proceeds of the private placement to pay the interest to the 2010 10% Note holders for the first year. The 2010 10% Notes mature on August 10, 2010 and are extendable, subject to certain provisions, to February 6, 2011. The 2010 10% Notes can be prepaid at any time at 110% of the principal amount if on or before the maturity date and at 120% thereafter. Purchasers of the 2010 10% Notes received warrants to purchase 1,370 ordinary shares per $1,000 invested in the 2010 10% Notes at an exercise price determined by formula equal to 110% of the issue price of a subsequent financing before February 6, 2011 of an amount greater than $7.5 million or in the absents of a subsequent financing, the exercise price is $0.365 per share but, in no event less that the conversion price of the Notes. In addition, if the 2010 10% Notes are not repaid in full on or before the maturity date, then each purchaser shall receive warrants to purchase the same number of ordinary shares as previously received by the purchaser. These convertible notes and warrants have anti-dilution provisions that upon the subsequent sale or issuance of securities may cause a reduction of the outstanding convertible notes' conversion price and warrants' exercise price. The 2010 10% Notes and warrants issued with the 2010 10% Notes agreement has a registration rights agreement that call for at any time during the period beginning December 31, 2011, until December 30, 2014, holders have a one-time right by written notice of no less that 50.1% of the securities and underlying securities included in the 2010 10% Note private placement to demand that we register all included and underlying securities. The Company believes this financing will provide working capital for use in connection with its short term business plan. The Company is pursuing other sources of financing to meet its obligations, repay its liabilities and fund the Company's 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 March XX, 2010, we have the following equity securities outstanding:

- 62,916,107 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.
- 3,955,586 warrants, the exercise price is determinable on future events.
- 5,171,944 stock options, each of which is exercisable for one ordinary share at prices ranging from $0.15 to $0.60 per share.
- 1,324,258 stock options, each of which is exercisable for one ordinary share at CDN$0.60 per share.
- convertible Notes convertible which conversion price may be determined by future events. If we assume the lowest conversion price available to the holders (the closing stock price on the day before the Notes were issued ($0.2569), the Notes would convert into 6,632,453 ordinary shares.

## Off-balance sheet arrangements:

We did not have off-balance sheet arrangements during 2009 or as of December 31, 2009.

## Transactions with related parties:

Except for the transactions described above, we have not been a party to any transactions with related parties during the period ended December 31, 2009.

## Fourth quarter 2009:

### *Revenue and gross profit*

Our fourth quarter 2009 revenues and gross profit decreased to $1,340,975 and $1,057,358, respectively, as compared to fourth quarter 2008 revenues and gross profits of $1,409,959 and $1,088,797, respectively, the small decrease was a result of our plan to maintain our level of customers and hold gross margins steady.

### *Marketing expense*

Our fourth quarter 2009 marketing expense decreased to $1,122,266 as compared to fourth quarter 2008 marketing expense of $2,112,435 as a result of our plan to maintain our level of customers, hold gross margins steady and reduce expenses.

### *General and administrative expense*

Our general and administrative expense amounted to $1,090,135 and $1,304,270 during the fourth quarters of 2009 and 2008, respectively. This $214,135 decrease in general and administrative expense was due to our cost reduction efforts to reduce expenses and hold gross margins steady. We reduced expenses in expense categories of consulting expense by $175,000, travel and entertainment by $60,000 and other general and administrative office-related expenses by $87,000 as compared to the fourth quarter of 2008. These expense reductions were offset by increases in legal expenses of $64,000 and $44,000 of non-cash stock compensation expense mainly due to stock options granted to an investor relations group in the fourth quarter of 2009.

### *Interest expense*

Interest expense, net of interest income was $434,282 during the fourth quarter of 2009 as compared to $177,334 during the fourth quarter 2008. During the fourth quarter of 2009, the Company completed a private placement financing of $1,703,880 of 10% senior extendible deferred convertible notes and warrants. Interest expense includes non-cash amortization of debt offering costs of $137,457 and $81,685 during the fourth quarters ended December 31, 2009 and 2008, respectively. Interest expense also included non-cash amortization of debt discount of $250,204 and $45,297 during each of the fourth quarters ended in 2009 and 2008, respectively. The non-cash amortization of debt offering costs and the non-cash amortization of debt discount includes amounts from both the debentures issued in 2007 and the Convertible Notes issued in 2009.

***Loss on derivative contract liabilities***

During the fourth quarter ending December 31, 2009, we recorded a $238,700 loss on derivative contract liabilities related to warrants denominated in Canadian dollars, the issue of warrants and a beneficial conversion feature related to our 10% senior extendible deferred convertible notes issued in the fourth quarter of 2009 as explained below.

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 quarter ended December 31, 2009, we incurred a non-cash loss of $4,020 as compared to a non-cash gain of $757,722 during the quarter ended December 31, 2008 related to the change in fair value of our derivative contract liabilities on the warrants issued with our IPO. The change in the fair value of our derivative contract liabilities was mainly a result of a decrease in the expected life of the warrants from 1.72 years to 0.72 years at December 31, 2008 and 2009, respectively and an increase in our stock price at December 31, 2009 as compared to December 31, 2008.

We have recorded the fair value of our warrants issued in the fourth quarter of 2009 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. 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 2.3%, estimated expected volatility of 38% and no dividends. The value assigned to the detachable warrants and placement agent warrants during October 2009 is $310,530 using the Black-Scholes option-pricing model and is included in derivative contract liabilities on the Company's consolidated balance sheets. The warrants are adjusted to reflect fair value, using the Black-Scholes option-pricing model, 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. At December 31, 2009, the fair value of these derivative instruments is $554,000 which resulted in a loss of $243,470 for the quarter ended December 31, 2009.

The 10% Notes were determined to have a beneficial conversion feature because the conversion price was less than the market value of the Company's ordinary shares at the time of issuance. The intrinsic value assigned to the beneficial conversion feature during October 2009 is $323,790 and is included in derivative contract liabilities on the Company's consolidated balance sheets. The beneficial conversion feature is adjusted to reflect fair value, using the Black-Scholes option-pricing model, 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. At December 31, 2009, the fair value of these derivative instruments is $315,000 which resulted in a gain of $8,790 for the quarter ended December 31, 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:**

**Accounting Standards Updates:**

In August 2009, an update was made to ASC 820, "*Fair Value Measurement and Disclosures — Measuring Liabilities at Fair Value*", to provide clarification that, in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using the techniques stated in the update. The update also clarifies fair value calculation for a liability when a restriction exists that prevents the transfer of the liability. The update further clarifies that use of quoted market price for an identical liability or the quoted market price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. This update is effective for the first reporting period, including interim periods, beginning after issuance. We have adopted the provisions of this update as of September 30, 2009 and there is no material impact on our consolidated financial statements.

In June 2009, the Financial Accounting Standards Board ("FASB") issued *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* The FASB Accounting Standards Codification ("Codification" or "ASC") established the Codification as the source of authoritative U.S. GAAP, recognized by the FASB to be applied by nongovernmental entities. The FASB will no longer issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right; these updates will serve only to update the Codification, provide background information about the guidance, and provide bases for conclusions on the change(s) in the Codification. The Codification is effective for interim and annual periods ending after September 15, 2009. We have updated our disclosures and consolidated financial statements to reflect the new Codification.

In May 2009, the FASB issued guidance, generally codified under ASC Topic 855 "Subsequent Events" ("Topic 855"). This statement sets forth the period after the balance sheet date during which management of 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. Topic 855 is effective for interim and annual periods ending after June 15, 2009. Our adoption of Topic 855 on June 30, 2009 did not have a material impact on our consolidated financial statements. See Note 12 – Subsequent Event for additional information.

Effective January 1, 2009 the Company applies Topic 815 "Derivatives and Hedging" ("Topic 815") on how an entity should determine whether an instrument (or an embedded feature) is indexed to an entity's own stock. This guidance provides for use of a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of Topic 815 did not have an impact on the Company's consolidated financial statements.

Effective January 1, 2009 the Company adopted guidance issued with ASC 815 on disclosures about derivative instruments and hedging activities which enhances the disclosure requirements about derivatives and hedging activities. Topic 815 requires additional narrative disclosure about how and why an entity uses derivative instruments, how they are accounted, and what impact they have on financial position, results of operations and cash flows.

In May 2008, the FASB issued guidance, generally codified under ASC Topic 470 on accounting for convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement. This guidance 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 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 and it is to be applied retrospectively. The Company's convertible debt does not have cash settlement conversion features and therefore the adoption of this application, effective January 1, 2009, did not have an impact on the Company's consolidated financial statements.

Effective January 1, 2008, the Company applied Topic 820, "Fair Value Measurements and Disclosures" ("Topic 820"), for all financial instruments and non-financial instruments accounted for at fair value on a recurring basis. Topic 820 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 application of Topic 820 did not have an impact on the Company's consolidated financial statements.

Topic 820 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, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

**(Expressed in U.S. Dollars)**

| | Fair Value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Derivative contract liabilities – warrants .... | $ 564,721 | $ — | $ 564,721 | $ — |
| Derivative contract liabilities – Beneficial conversion feature – 10% Notes .................... | $ 315,000 | — | $ 315,000 | $ — |

Effective January 1, 2008, the Company applied Topic 825, "Financial Instruments" ("Topic 825"). Under Topic 825, 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 this application for any financial instruments or other items that are not currently required to be measured at fair value.

**Accounting Standards Updates Not Yet Effective:**

In June 2009, an update was made to "*Consolidation — Consolidation of Variable Interest Entities*", to replace the calculation for determining which entities, if any, have a controlling financial interest in a variable interest entity ("VIE") from a quantitative risk based calculation, to a qualitative approach that focuses on identifying which entities have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. The update requires ongoing assessment as to whether an entity is the primary beneficiary of a VIE, modifies the presentation of consolidated VIE assets and liabilities, and requires additional disclosures about a company's involvement in VIEs. This update is effective for annual periods beginning after November 15, 2009, for interim periods within the first annual reporting period and for interim and annual periods thereafter. Earlier application is prohibited. We will adopt the provisions this update as of January 1, 2010 and do not anticipate a material impact to our condensed consolidated financial statements.

In September 2009, an update was made to *"Fair Value Measurement and Disclosures — Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)",* which permits entities to measure the fair value of an investment that is within the scope of the amendments in this update on the basis of net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of *"Financial Services — Investment Companies"* as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with *"Fair Value Measurements and Disclosures"* guidance. This update also requires disclosure by major category of investment about the attributes of investments within the scope of the update. This update is effective for interim and annual periods ending after December 15, 2009. We will adopt the provisions of this update as of January 1, 2010 and do not anticipate a material impact to our condensed consolidated financial statements.

In October 2009, an update was made to *"Revenue Recognition — Multiple-Deliverable Revenue Arrangements"* This update amends the criteria in *"Multiple-Element Arrangements"* for separating consideration in multiple-deliverable arrangements and replaces the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. This update establishes a selling price hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation and significantly expands the disclosures related to a vendor's multiple-deliverable revenue arrangements. This update is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We are currently in the process of evaluating the impact on our condensed 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. In November 2009, we completed a private placement for the sale of senior extendible deferred convertible notes (the, "10% Notes") that were determined to have a beneficial conversion feature because the conversion price was less than the market value of the Company's ordinary shares at the time of issuance.

We incurred debt offering costs related to the issuance of the 10% Notes and these costs are capitalized as debt offering costs on the consolidated balance sheets and are charged to interest expense using the straight-line method which approximates the effective interest method over the life of the 10% Notes. During the year ended December 31, 2009, we recognized non-cash interest expense of $137,457 relating to amortization of the debt offering costs related to the 10% Notes. Unamortized debt offering costs were $384,116 at December 31, 2009.

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 2.3%, estimated expected volatility of 38% and no dividends. The value assigned to the detachable warrants and placement agent warrants during October 2009 is $310,530 using the Black-Scholes option-pricing model and is included in derivative contract liabilities on the Company's consolidated balance sheets.

Original debt discount of $310,530 associated with our outstanding 10% Notes represents the original fair value of the detachable warrants that were issued in conjunction with our 10% Notes. This debt discount is amortized using the straight-line method, which approximates the effective interest method, as interest expense over the life of the 10% Notes. During the year ended December 31, 2009, we recognized non-cash interest expense applicable to discount amortization of $122,475.

The 10% Notes were determined to have a beneficial conversion feature because the conversion price was less than the market value of the Company's ordinary shares at the time of issuance. The intrinsic value assigned to the beneficial conversion feature during October 2009 is $323,790 and is included in derivative contract liabilities on the Company's consolidated balance sheets. This debt discount is amortized using the straight-line method, which approximates the effective interest method, as interest expense over the life of the 10% Notes. During the year ended December 31, 2009, we recognized non-cash interest expense applicable to discount amortization of $127,729.

As of September 30, 2009, all of our convertible debentures have converted into the company's ordinary shares. 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 were due in June and July 2009. During the years ended December 31, 2009 and 2008, we recognized non-cash interest expense applicable to discount amortization of $84,215 and $184,632, 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 years ended December 31, 2009 and 2008, we recognized non-cash interest expense of $160,072 and $326,738, respectively in each of the periods, relating to amortization of our debt offering costs. Unamortized debt offering costs relating to our convertible debentures was $160,072 at December 31, 2008.

During the year ended December 31, 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 $2,497,316 of these discounts were amortized to expense during the year ended December 31, 2008. We also accrued dividends payable of $285,388 during the year ended December 31, 2008. As a result, during the year ended December 31, 2008, we recognized a total of $2,782,704 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 $18,964 at December 31, 2009 and our accounts receivable balance was $89,175 at December 31, 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 December 31, 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 December 31, 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, 2009 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. As of December 31, 2009, we had approximately 25,000 customers with active subscriptions. Our active customer count is down at December 31, 2009 as compared to 38,000 at December 31, 2008. 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 year ended December 31, 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;
- Uncertainties 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.