

ID WATCHDOG, INC.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

ID WATCHDOG, INC.

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

Consolidated Financial Statements:

Report of Independent Registered Public Accounting Firm.....	1
Consolidated Statements of Financial Position.....	2
Consolidated Statements of Operations.....	3
Consolidated Statements of Shareholders' Equity (Deficit).....	4
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements.....	6-35

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
ID Watchdog, Inc.

We have audited the accompanying consolidated statements of financial position of ID Watchdog, Inc. as of December 31, 2011, December 31, 2010 and January 1, 2010, and the related consolidated statements of operations, shareholders' equity (deficit) and cash flows for the years ended December 31, 2011 and December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ID Watchdog, Inc. as of December 31, 2011, December 31, 2010 and January 1, 2010, and the results of its consolidated operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in conformity with International Financial Reporting Standards.

As discussed in Note 4, the Company adopted International Financial Reporting Standards in 2011, effective January 1, 2010. The Company previously prepared its financial statements in accordance with U.S. generally accepted accounting principles.

As discussed in Note 17 to the consolidated financial statements, the 2011 and 2010 consolidated financial statements have been restated to correct an error.



Hein & Associates LLP

Denver, Colorado
May 1, 2012

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

	December 31, 2011	December 31, 2010	January 1, 2010
		(Restated- Note 4)	(Restated- Note 4)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 854,688	\$ 99,082	\$ 488,689
Available for sale securities.....	735,000	—	—
Restricted cash (Note 3(c)).....	—	61,057	171,752
Accounts receivable, net of allowance of \$6,472, \$0 and \$0.....	109,591	72,892	89,175
Prepaid expenses and other, net.....	52,901	136,243	161,428
Total current assets	1,752,180	369,274	911,044
Property and equipment, net (Note 5)	238,658	203,137	376,411
Total assets	\$1,990,838	\$ 572,411	\$ 1,287,455
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 357,689	\$ 1,275,492	\$ 1,530,859
Accrued liabilities	107,350	985,811	595,536
Current portion of capital lease obligation (Note 7)	15,600	2,290	2,290
Deferred revenue.....	215,200	360,762	378,056
10% extendable deferred convertible notes, net of amortization of discount of \$0, \$384,116 and \$0 (Note 7).....	—	3,203,880	1,095,655
Total current liabilities	695,839	5,828,235	3,602,396
Deferred Rent	91,919	—	—
Capital lease obligation, net of current portion (Note7)	58,449	2,476	5,406
Series C Preferred mandatorily redeemable preferred shares, net of discount and conversion feature(Note 8)	2,204,390	—	—
Warrant Liability (Note 11)	624,602	37,000	879,721
Total liabilities	3,675,199	5,867,711	4,487,523
Commitments and Contingencies(Notes 1,8 and 12)			
SHAREHOLDERS' DEFICIT			
Share capital (Note 8, 9, 10 and 11):			
Preferred shares; 450,000,000 shares authorized			
Ordinary shares; no par value; 450,000,000 shares authorized:			
Ordinary Shares	24,470,534	19,573,146	19,573,146
Contributed Surplus.....	1,440,371	665,818	614,648
Warrants	1,571,121	1,018,582	1,018,582
Accumulated deficit	(29,166,387)	(26,552,846)	(24,406,444)
Total shareholders' deficit	(1,684,361)	(5,295,300)	(3,200,068)
Total liabilities and shareholders' deficit	\$1,990,838	\$ 572,411	\$ 1,287,455

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

	Year Ended December 31,	
	2011	2010
		(Restated-Note 4)
Revenue	\$ 2,020,063	\$ 3,329,442
Cost of revenue	659,537	395,832
Gross profit.....	1,360,526	2,933,610
Operating expense:		
General and administrative expense...	2,185,443	2,350,117
Marketing expense	597,052	1,359,505
Stock – based compensation expense...	774,553	51,170
Depreciation and amortization expense	170,921	249,977
	3,727,969	4,010,769
Operating loss	(2,367,443)	(1,077,159)
Other income (expense):		
Interest Expense.....	(696,760)	(2,130,056)
Interest Income.....	3,061	6,312
Gain (Loss) on Warrant Liabilities.....	450,625	1,054,501
Loss on Sale of Equipment.....	(3,024)	—
	(246,098)	(1,069,243)
Net loss and comprehensive loss applicable to ordinary shares	\$ (2,613,541)	\$ (2,146,402)
Basic and diluted net loss per share applicable to ordinary shares.....	\$ (0.03)	\$ (0.03)
Weighted average number of shares outstanding - basic and diluted	97,977,264	62,916,107

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

ID WATCHDOG, INC.
CONSOLIDATED FINANCIAL STATEMENTS OF SHAREOLDERS DEFICIT
(Expressed in U.S. Dollars)

	<u>Ordinary Shares</u>	<u>Ordinary Shares Amount</u>	<u>Contributed Surplus</u>	<u>Warrants</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Deficit</u>
Balances January 1, 2010 (Restated - Note 4....	62,916,107	\$ 19,573,146	\$ 614,648	\$1,018,582	(\$ 24,406,444)	(\$ 3,200,068)
Net loss.....	—	—	—	—	(2,146,402)	(2,146,402)
Share based compensation expense and stock options issued for services.....	—	—	51,170	—	—	51,170
Balances December 31, 2010 (Restated- Note 4).....	<u>62,916,107</u>	<u>\$ 19,573,146</u>	<u>\$ 665,818</u>	<u>\$1,018,582</u>	<u>(\$ 26,552,846)</u>	<u>(\$ 5,295,300)</u>
Balances January 1, 2011....	62,916,107	\$ 19,573,146	\$ 665,818	\$1,018,582	(\$ 26,552,846)	(\$ 5,295,300)
Net loss.....	—	—	—	—	(2,613,541)	(2,613,541)
Share based compensation expense and stock options issued for services.....	—	—	774,553	—	—	774,553
Shares issued in exchange of \$3,028,879 of the 2009 and 2010 convertible notes at \$0.10 per share, net of issuance costs.....	30,288,769	2,797,559	—	—	—	2,797,559
Shares issued in exchange of \$814,345 trade payable debt at \$0.10 per share, net of issuance costs.....	8,143,454	737,489	—	—	—	737,489
Series C Preferred conversion feature, net of issuance costs.....	—	106,233	—	—	—	106,233
Shares issued in Units Offering, net of issuance costs	16,666,667	1,256,107	—	—	—	1,256,107
Warrants issued in Units Offering and finders warrants, net of issuance costs.....	—	—	—	552,539	—	552,539
Balance, December 31, 2011.....	<u>118,014,997</u>	<u>\$ 24,470,534</u>	<u>\$ 1,440,371</u>	<u>\$1,571,121</u>	<u>(\$ 29,166,387)</u>	<u>(\$ 1,684,361)</u>

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

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

	Year Ended December 31,	
	2011	2010 (Restated-Note 4)
Cash flows from operating activities:		
Net loss	\$ (2,613,541)	\$ (2,146,402)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	170,921	249,977
Interest expense – accrued dividends on Series C Preferred shares amortization of liquidation preferences, discount on warrants and debt offering costs.....	622,700	1,051,085
Share-based compensation expense to employees, directors and consultants	774,553	51,170
Issuance of Ordinary Shares in payment of interest.....	96,097	—
Gain on fair value adjustment to warrant liabilities.....	(450,625)	(1,054,501)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(43,171)	16,283
Decrease in prepaid expenses and other	37,586	25,185
Allowance for uncollectible accounts receivable and note receivable	52,228	—
(Decrease) in deferred revenue.....	(145,562)	(17,294)
Increase in deferred rent.....	11,974	—
Loss on sale of assets.....	3,024	—
Increase (decrease) in accounts payable and accrued liabilities.....	(981,919)	134,908
Net cash provided by (used in) operating activities	<u>(2,465,735)</u>	<u>(1,689,589)</u>
Cash flows from investing activities:		
Purchase of available for sale securities.....	(735,000)	—
Change in restricted cash.....	61,057	110,695
Capital expenditures	(53,556)	(76,703)
Net cash used in investing activities	<u>(727,499)</u>	<u>33,992</u>
Cash flows from financing activities:		
Proceeds from issuance of Series C convertible preferred shares and warrants	3,123,481	—
Issuance Costs for Series C Preferred and related warrants...	(433,904)	—
Proceeds from issuance of Ordinary Shares and Warrants.....	2,000,000	—
Issuance costs for issuance of Ordinary Shares and Warrants.....	(191,354)	—
Proceeds from issuance of 10% extendible deferred convertible notes and warrants, net	—	1,500,000
Issuance costs of 10% extendible deferred convertible notes and warrants.....	—	(231,080)
Repayment of debt.....	(271,100)	—
Issuance costs related to conversion of debt and trade payables into ordinary shares	(271,601)	—
Repayment of capital lease obligation	(6,682)	(2,930)
Net cash provided by financing activities	<u>3,948,840</u>	<u>1,265,990</u>
Net increase (decrease) in cash	\$ 755,606	\$ (389,607)
Cash and cash equivalents, beginning of period	99,082	488,689
Cash and cash equivalents, end of period	<u>\$ 854,688</u>	<u>\$ 99,082</u>

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

	Year Ended December 31,	
	2011	2010
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 460,931	\$ 403,766
Cash paid for Income Taxes.....	—	—
Supplemental disclosure of non-cash investing and financing activities:		
Equipment acquired with financing leases.....	\$ 75,965	\$ —
Leasehold Improvements financed by deferred rent.....	79,945	—
Ordinary shares issued upon the conversion of debt and the repayment of accounts payable	3,747,125	—

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

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

1. General Business Description and Liquidity

Business Description

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

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

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

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

Liquidity

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

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

- The sale of 3,123,481 shares of Series C Preferred (as defined below) as a part of units, at a price of \$1,000 per unit, with each unit consisting of one (1) Series C Convertible Preferred share of no par value (the "Series C Preferred") and 5,000 warrants to purchase Ordinary Shares (the "Recap Warrants") (each one share of Series C Preferred and 5,000 warrants a "Recap Unit" and collectively the "Recap Units"). The gross proceeds from the sale of the Recap Units were \$3,123,481. Each Series C Preferred Share is convertible into 10,000 Ordinary Shares in the capital of the Company at a conversion price of \$0.10 per share at any time before February 24, 2016. The Series C Preferred Shares mature on February 24, 2016 and may be repaid in cash or through the issuance of a 90-day promissory note on the maturity date. Each Recap Warrant is exercisable into one Ordinary Share in the capital of the Company at a price of \$0.12 at any time before February 24, 2016. The Recap Warrants are, at the option of the holder, exercisable on a cashless basis whereby the holder of the warrant will be entitled to receive that number of Ordinary Shares equivalent to the "in-the-money" value of the warrant divided by a minimum exercise price of \$0.12
- The issuance of 30,288,769 Ordinary Shares, for repayment of \$2,932,780 face amount of outstanding convertible notes. The convertible notes consisted of \$1,703,000 of notes issued in October and November of 2009 maturing in September 2010 (the "2009 Notes") and \$1,500,000 of convertible notes (the "2010 Notes") outstanding with an extended maturity to February 2011. During the first quarter of 2011, a consent offer was made to the holders of the 2009 Notes and the 2010 Notes to exchange their notes for cash and Ordinary Shares. For each \$1,000 original face amount of 2009 Note and the 2010 Notes, the holders received \$200 in cash and that number of shares of our Ordinary Shares which is equal to the sum of \$1,000 plus applicable accrued interest thereon as of the closing of the offer, divided by \$0.10. Holders of \$271,100 face amount of the 2009 Notes and the 2010 Notes chose not to participate in the exchange and were repaid in cash. As of February 24, 2011, all of the 2009

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

and 2010 Notes had been repaid.

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

On November 8, 2011, the Company closed a private placement offering of units (the "Units"). The Company sold 8,333,333 Units at a price of \$0.24 per Unit for aggregate gross proceeds of U.S. \$2,000,000 (the "Units Offering"). Net proceeds from the Units Offering were \$1,808,646. Each Unit consists of two Ordinary Shares in the capital of the Company and two ordinary share purchase warrants (each, a "Warrant"). The first Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S. \$0.15 at any time prior to 5:00 p.m. on November 8, 2016. The second Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S. \$0.25 at any time prior to 5:00 p.m. on November 8, 2016.

Our cash balances and available-for-sale financial assets as of December 31, 2011 were \$1,589,688. We are dependent upon our existing cash balances, along with our cash flow generated from gross profits and/ or additional debt or equity financing to fund our operating activities, our expansion plans and other working capital needs. The Company believes it has sufficient liquidity to fund its operating losses and working capital needs until early 2013 when the Company projects that it will reach positive operating income.

2. Significant Accounting Policies and Basis of Presentation

(a) Statement of Compliance

The consolidated financial statements of the Company have been prepared under International Financial Reporting Standards ("IFRS"). The financial statements have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards". Previously, the Company prepared its annual consolidated financial statement in accordance with United States generally accepted accounting principles ("U.S. GAAP").

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

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

These consolidated financial statements were authorized for issue by the Audit Committee of the Board of Directors and the Board of Directors on April 26, 2012.

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

(b) Basis of Measurement

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

(c) Functional and Presentation Currency

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

(d) Recent Accounting Pronouncements

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

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

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

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

3. Significant Accounting Policies

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

(a) Principles of Consolidation

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

(b) Cash and Cash Equivalents

Cash and cash equivalents are highly liquid investments that consist primarily of short-term money market instruments with maturities of 90 days or less at the time of the date of the statement of financial position. We utilize and invest with financial institutions that are sound and of high credit quality. Our investments are in low-risk instruments and we limit our credit risk exposure in any one institution or type of investment instrument in accordance with the Company's investment policy criteria which includes consideration of the credit worthiness of the institution. At times, cash balances in these accounts may exceed federally insured limits.

(c) Available for Sale Securities

Available for sale securities are short-term, highly liquid investments that are readily convertible to known amount of cash and which are subject to an insignificant risk of changes in value with a maturity of more than 90 days from the date of the statement of financial position as available-for-sale securities.

(d) Restricted Cash

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

(e) Property and Equipment

(i) Recognition and measurement

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

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

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

(ii) Depreciation and Amortization

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

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

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

(f) Intangible Assets

(i) Internal use software development costs

Certain costs incurred in connection with the development of software to be used internally or for providing services to customers are capitalized once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software products so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probably future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software products are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Development costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific product. The capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure is capitalized only when it increased the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(ii) Amortization

The company's registered trademarks have been determined to have an indefinite life and are therefore not amortized.

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

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

(g) Ordinary Shares

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

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

(h) Leases

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

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

(i) Transaction Costs

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

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

(j) Impairment of Long-lived Assets

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

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

(k) Financial Instruments

(i) Classification and measurement

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

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

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

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

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

(ii) Impairment

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

(l) Warrants

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

(m) Revenue Recognition

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

Revenue for annual and multi-year subscription fees is deferred and recognized on a straight-line basis over a period which is equal to the standard monthly subscription rate for the time period calculated by using the subscription fee divided by the standard monthly subscription rate. Deferred revenue was \$215,200 and \$360,762 at December 31, 2011 and December 31, 2010, respectively, and is included in liabilities on the consolidated financial statements.

In addition, the Company has established a reserve for charge-backs and discretionary refunds based on actual experience. This reserve was \$2,186 and \$3,472 at December 31, 2011 and

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

December 31, 2010, respectively, and is included in accrued liabilities on the consolidated financial statements.

(n) Share Based Compensation

The Company has one share-based compensation plan which is described in Note 9. The Company accounts for share-based awards that are settled through the issuance of equity using a fair value based method, whereby the fair value of the share-based award is determined at the date of grant using a market-based option valuation model. . Stock-based compensation costs are expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Share-based compensation expense is included in general and administrative expense in the consolidated statements of operations.

(o) Income Taxes

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

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

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

Deferred income tax assets and liabilities are presented as non-current.

(p) Earnings Per Share and Reserved Ordinary Shares

Basic net loss per ordinary share (“EPS”) is computed by dividing net loss applicable to ordinary shares by the weighted-average number of ordinary shares outstanding for the period. Diluted EPS reflects the potential dilution that would occur if securities or other contracts to issue ordinary shares were exercised or converted into ordinary shares. Currently, all potentially dilutive securities have an anti-dilutive effect on EPS and accordingly, basic and dilutive weighted average shares are the same. As of December 31, 2011, a total of 114,093,102 shares of potentially dilutive securities have been excluded from the calculation of EPS, as the effect of including these securities would be anti-dilutive, as follows:

Potentially Dilutive Securities as of December 31, 2011	
	Equivalent Ordinary Shares
Series C Preferred	31,234,810
Warrants	72,268,292
Stock options	10,590,000
Total	114,093,102

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

Also as of December 31, 2011, the Company has reserved 114,093,102 Ordinary Shares for future issuance for the securities listed above.

(q) Significant Accounting Judgments and Estimates

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

These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Management has made significant assumptions about the future and other sources of estimation uncertainty at the statement of financial position date that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ. Assumptions made, relate to, but are not limited to, the following:

(i) Accounts receivable

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

(ii) Property and equipment

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

(iii) Commitments and contingencies

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

(iv) Warrants and Options

The Company uses the Black-Scholes option pricing model to value warrants and stock options. The Black-Scholes model requires the use of a number of assumptions, including expected share price volatility, risk-free interest rates, and the expected term of the warrants and options. The company also in certain cases applied a discount to the quoted stock price in the Black-Scholes calculation. The expected term of stock options represents the period of time that the stock options granted are expected to be outstanding. The estimated expected share price volatility is based on the combination of the Company's historical share price volatility and the expected volatility of a similar entity with publicly-traded securities. The risk-free interest rate is based on the U.S. Treasury bill rate for the expected term of the related warrants and stock options. As the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

4. Explanation of Transition to International Financial Reporting Standards

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

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

(a) Required Exception to Retrospective Application

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

(i) Estimate Exception:

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

(b) Elected Exemptions to Retrospective Application

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

(i) Fair value or revaluation as deemed cost

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

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

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

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

Year Ended December 31, 2010			
	US GAAP	IFRS	Percent Change
Operating loss	\$(1,077,159)	\$(1,077,159)	—
Net loss	\$(2,146,402)	\$(2,146,402)	—

Impact of IFRS Adoption on Significant Accounting Policies and Estimates

The Company's IFRS accounting policies are provided in Note 3 to the consolidated financial statements. In addition, Note 4 of the consolidated financial statements presents reconciliations between the Company's 2010 previous U. S. GAAP results and the 2010 IFRS results. The reconciliations include statements of financial position as of January 1 and December 31, 2010, statements of loss and comprehensive loss and cash flow for the year ended December 31, 2010, and statements of shareholders' equity (deficit) as of January 1 and December 31, 2010.

Had the Company followed IFRS certain items in the statements of financial position as of January 1 and December 31, 2010, statements of loss and comprehensive loss and cash flows for the year ended December 31, 2010 and statements of shareholders' equity (deficit) as of January 1 and December 31, 2010 would have been reported as reflected in the statements and tables below.

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

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

	<u>US GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 488,689	\$ —	\$ 488,689
Restricted cash	171,752	—	171,752
Accounts receivable	89,175	—	89,175
Prepaid expenses and other	161,428	—	161,428
Debt offering costs, net	224,109	(244,109)	—
Total current assets	<u>1,135,153</u>	<u>(224,109)</u>	<u>911,044</u>
Property and equipment, net	376,411	—	376,411
Total assets	<u>\$ 1,511,564</u>	<u>\$ (224,109)</u>	<u>\$ 1,287,455</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,530,859	—	\$ 1,530,859
Accrued liabilities	595,536	—	595,536
Current portion of capital lease obligation	2,290	—	2,290
Deferred revenue	378,056	—	378,056
10% extendable deferred convertible notes, net of amortization of discount of \$384,116	1,319,764	(224,109)	1,095,655
Derivative contract liabilities	879,721	—	879,721
Total current liabilities	<u>4,706,226</u>	<u>(224,109)</u>	<u>4,482,117</u>
Capital lease obligation, net of current portion	5,406	—	5,406
Total liabilities	<u>4,711,632</u>	<u>(224,109)</u>	<u>4,487,523</u>
SHAREHOLDERS' DEFICIT			
Share capital:			
Preferred shares; 450,000,000 shares authorized			
Ordinary shares; no par value; 450,000,000 shares authorized:			
Ordinary Shares	19,792,201	(219,055)	19,573,146
Contributed Surplus	395,593	219,055	614,648
Warrants	1,018,582	—	1,018,582
Accumulated deficit	(24,406,444)	—	(24,406,444)
Total shareholders' deficit	<u>(3,200,068)</u>	<u>—</u>	<u>(3,200,068)</u>
Total liabilities and shareholders' deficit	<u>\$ 1,511,564</u>	<u>\$ (224,109)</u>	<u>\$ 1,287,455</u>

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

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

	<u>US GAAP</u>	<u>Effect of transition to IFRS</u>	<u>IFRS</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 99,082	\$ —	\$ 99,082
Restricted cash	61,057	—	61,057
Accounts receivable	72,892	—	72,892
Prepaid expenses and other	136,243	—	136,243
Debt offering costs, net	—	—	—
Total current assets	<u>369,274</u>	<u>—</u>	<u>369,274</u>
Property and equipment, net	203,137	—	203,137
Total assets	<u>\$ 572,411</u>	<u>\$ —</u>	<u>\$ 572,411</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,275,492	\$ —	\$ 1,275,492
Accrued liabilities	985,811	—	985,811
Current portion of capital lease obligation	2,290	—	2,290
Deferred revenue	360,762	—	360,762
Derivative contract liabilities	37,000	—	37,000
10% Extendible deferred convertible notes	3,203,880	—	3,203,880
Total current liabilities	<u>5,865,235</u>	<u>—</u>	<u>\$ 5,865,235</u>
Capital lease obligation, net of current portion	2,476	—	2,476
Total liabilities	<u>5,867,711</u>	<u>—</u>	<u>5,867,711</u>
SHAREHOLDERS' DEFICIT			
Share capital:			
Preferred shares; 450,000,000 shares authorized			
Ordinary shares; no par value; 450,000,000 shares authorized:			
Ordinary Shares	19,573,146	—	19,573,146
Contributed Surplus	665,818	—	665,818
Warrants	1,018,582	—	1,018,582
Accumulated deficit	(26,552,846)	—	(26,552,846)
Total shareholders' deficit	<u>(5,295,300)</u>	<u>—</u>	<u>(5,295,300)</u>
Total liabilities and shareholders' deficit	<u>\$ 572,411</u>	<u>\$ —</u>	<u>\$ 572,411</u>

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

Reconciliation of consolidated statement of income and comprehensive income for the year ended December 31, 2010 from U.S. GAAP to IFRS:

	U.S. GAAP	Effect of transition to IFRS	IFRS
Revenue	\$ 3,329,442	\$ —	\$ 3,329,442
Cost of revenue	395,832	—	395,832
Gross profit	2,933,610	—	2,933,610
Operating expense:			
General and administrative expense	2,350,117	—	2,350,117
Marketing expense	1,359,505	—	1,359,505
Stock – based compensation expense ..	51,170	—	51,170
Depreciation and amortization expense	249,977	—	249,977
	4,010,769	—	4,010,769
Operating loss	(1,077,159)	—	(1,077,159)
Other income (expense):			
Gain (Loss) on derivative contract liabilities	1,054,501	—	1,054,501
Interest income	6,312	—	6,312
Interest expense	(2,130,056)	—	(2,130,056)
	(1,069,243)	—	(1,069,243)
Net loss and comprehensive loss applicable to ordinary shares.....	\$ (2,146,402)	—	\$ (2,146,402)
Basic and diluted net loss per share applicable to ordinary shares	\$ (0.03)	—	\$ (0.03)
Weighted average number of shares outstanding - basic and diluted	62,916,107	—	62,916,107

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

	January 1, 2010	December 31, 2010
Shareholders' Deficit as reported under US GAAP.....	\$ (3,200,068)	\$ (5,295,300)
IFRS adjustments increase (decrease)....	—	—
Shareholders' Deficit as reported under IFRS.....	\$ (3,200,068)	\$ (5,295,300)

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

	Year Ended December 31, 2010		
	U.S. GAAP	Effect of Transition to IFRS	IFRS
Cash flows from operating activities:			
Net loss	\$ (2,146,402)	—	\$ (2,146,402)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization expense	249,977	—	249,977
Amortization of debt offering costs and convertible debenture discount	1,051,085	—	1,051,085
Share-based compensation expense to employees, directors and consultants	51,170	—	51,170
Ordinary shares issued in payment of interest	—	—	—
Loss (gain) on derivative contracts	(1,054,501)	—	(1,054,501)
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	16,283	—	16,283
Decrease in prepaid expenses and other	25,185	—	25,185
Increase in deferred revenue	(17,294)	—	(17,294)
Increase in accounts payable and accrued liabilities	134,908	—	134,908
Net cash used in operating activities	(1,689,589)	—	(1,689,589)
Cash flows from investing activities:			
Capital expenditures	(76,703)	—	(76,703)
Net cash used in investing activities	(76,703)	—	(76,703)
Cash flows from financing activities:			
Proceeds from issuance of 10% extendible deferred convertible notes and warrants, net	1,500,000	—	1,500,000
Deferred financing costs	(231,080)	—	(231,080)
Change in restricted cash	110,695	—	110,695
Repayment of capital lease obligation	(2,930)	—	(2,930)
Net cash provided by financing activities	1,376,685	—	1,376,685
Net (decrease) increase in cash	\$ (389,607)	\$ —	\$ (389,607)
Cash and cash equivalents, beginning of period	488,689	—	488,689
Cash and cash equivalents, end of period	\$ 99,082	\$ —	\$ 99,082
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 403,766	\$ —	\$ 403,766
Cash paid for income taxes	\$ —	\$ —	\$ —

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

Notes to the Reconciliations

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

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

- b) Under US GAAP the Company recognized stock-based compensation expense on a straight-line basis over the vesting period of the stock award, with a corresponding increase to Ordinary Shares in the consolidated balance sheet.

Under IFRS, stock-based compensation expense is determined using an accelerated amortization method with graded vesting features that results in higher compensation expense in the earlier years of the vesting period as compared to the straight-line method used under US GAAP. The conversion to IFRS resulted in a reclassification of \$219,055 from Ordinary Shares to Contributed Surplus in the January 1, 2010 consolidated statement of financial position.

5. Property and Equipment

The Company's property and equipment comprise of computer hardware, computer software, office furniture and equipment and leasehold improvements.

Property and equipment at December 31, 2011 and 2010 includes \$155,910 and \$14,470 respectively, of assets under capital leases and tenant improvements. Accumulated depreciation at December 31, 2011 and 2010 includes \$9,106 and \$10,128 respectively, of accumulated depreciation applicable to office equipment assets under capital leases.

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was \$170,921 and \$249,977 respectively, and is included in general and administrative expenses in the consolidated statements of operations.

The net book value of computer hardware, computer software, furniture and equipment and leasehold improvements is summarized as follows:

	Computer Hardware	Computer Software	Office Equipment	Furniture	Leasehold Improvements	Total
Cost						
Balance as of January 1, 2010	\$ 155,357	\$ 629,649	\$ 24,083	\$ 44,203	\$ 19,819	\$ 873,111
Additions	\$ 2,056	\$ 74,647	-	-	-	\$ 76,703
Deletions	-	-	-	-	-	-
Balance at December 31, 2010	\$ 157,413	\$ 704,296	\$ 24,083	\$ 44,203	\$ 19,819	\$ 949,814
Additions	\$ 6,880	\$ 35,368	\$ 76,349	\$ 6,596	\$ 84,273	\$ 209,466
Deletions	\$ (52,066)	-	\$ (184)	\$ (2,545)	\$ (2,357)	\$ (57,152)

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

Balance at December 31, 2011	\$ 112,227	\$ 739,664	\$ 100,248	\$ 48,254	\$101,735	\$1,102,128
Accumulated Depreciation and						
Balance as of January 1, 2010	\$ (95,231)	\$(343,102)	\$ (12,623)	\$(27,059)	\$(18,685)	\$ (496,700)
Depreciation and amortization for the period	\$ (36,802)	\$(196,387)	\$ (4,835)	\$(10,819)	\$ (1,134)	\$ (249,977)
Deletions	-	-	-	-	-	-
Balance at December 31, 2010	\$(132,033)	\$(539,489)	\$ (17,458)	\$(37,878)	\$ (19,819)	\$ (746,677)
Depreciation and amortization for the period	\$ (22,641)	\$(129,121)	\$ (8,646)	\$ (5,965)	\$ (4,548)	\$ (170,921)
Deletions	\$ 49,222	-	\$ 184	\$ 2,365	\$ 2,357	\$ 54,128
Balance at December 31, 2011	\$ (105,452)	\$(668,610)	\$ (25,920)	\$ (41,478)	\$ (22,010)	\$ (863,470)
	Computer Hardware	Computer Software	Office Equipment	Furniture	Leasehold Improvements	Total
Net book value:						
At January 1, 2010	\$ 60,126	\$ 286,547	\$ 11,460	\$ 17,144	\$ 1,134	\$ 376,411
At December 31, 2010	\$ 25,380	\$ 164,807	\$ 6,625	\$ 6,325	-	\$ 203,137
At December 31, 2011	\$ 6,774	\$ 71,054	\$ 74,327	\$ 6,776	\$ 79,725	\$ 238,656
Loss on Sale of Equipment	\$ (2,844)	-	-	\$ (180)	-	\$ (3,024)

6. Related Party Transactions

From the Company's inception through March 11, 2011, Daryl Yurek was the Chief Executive Officer and Chairman of the Board of Directors of the Company. On March 11, 2011, Mr. Yurek resigned as CEO and as Chairman of the Board of the Company. Subsequent to that date, the Company no longer considers transactions with Mr. Yurek, or his affiliates, including Veracity Credit Consultants, LLC ("VCC"), to be related party transactions. While transactions with Mr. Yurek are no longer considered related party transactions subsequent to March 11, 2011, certain of these transactions continued subsequent to the date he resigned from the Company.

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

Following are services provided by Mr. Yurek or his affiliates including VCC, which were considered related party expense for the period January 1 to March 11, 2011 and for the year ended December 31, 2010.

(a) Marketing Expenses

During 2011 and 2010, the Company was provided facilities and call center services by VCC under a month to month service agreement. For the period January 1 through March 11, 2011 and for the year ended December 31, 2010, the Company incurred call center marketing expenses of \$10,800 and \$132,749, respectively.

(b) Office Rent, Equipment and Supplies

During 2011 and 2010, the Company shared office space with VCC and was allocated certain costs (based on head count) for office space rent, office equipment, supplies and other office related items. This sharing arrangement was a month to month cost sharing agreement with VCC. For the period January 1 through March 11, 2011 and for the year ended December 31, 2010 the Company incurred \$18,093 and \$58,982 of expenses, respectively, under this arrangement.

(c) Consulting Fees to Daryl Yurek

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

During 2011 and 2010, the Company paid consulting fees to Daryl Yurek, or entities he controlled, under a month to month consulting agreement. For the period January 1 through March 11, 2011 and for the year ended December 31, 2010 the Company recognized \$30,277 and \$189,158 of consulting fees, respectively, under this arrangement.

(d) Note Receivable

In February 2010, the Company agreed to loan VCC \$67,220 with an advance of \$50,000 and a transfer of a previous prepayment for VCC to provide call center facilities and services as described above. The note receivable accrued interest at a rate of 10% per annum and was due on January 31, 2011. The note maturity was extended by one year in February 2011. At December 31, 2011, the note receivable balance, including accrued interest totaled \$45,756 and is reflected in the consolidated statement of financial position as a current asset. The note receivable and all accrued interest has been fully reserved as the Company believes it is unlikely the note receivable and accrued interest will be collected. The Company recognized interest income of \$4,338 and \$3,869 for years December 31, 2011 and 2010, respectfully.

7. Long-term Debt

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

	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Current borrowings:		
10% Senior extendible deferred convertible notes (2009 Notes)	\$ —	\$ 1,703,880
10% extendible deferred convertible notes (2010 Notes).....	—	1,500,000
Current portion of capital lease obligations	15,600	2,290
Total current borrowings	<u>\$ 15,600</u>	<u>\$ 3,206,170</u>
Long-term borrowings:		
Capital lease obligations, net of current portion	58,449	2,476
Total long-term borrowings	<u>\$ 58,449</u>	<u>\$ 2,476</u>

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

In July 2011, the Company entered into a five year agreement to lease telecommunications equipment. The monthly lease payments are \$1,574 and the agreement includes a bargain purchase option at the end of the lease term.

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

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Present Value</u>	<u>Future Value</u>	<u>Present Value</u>	<u>Future Value</u>
Within one year.....	\$ 15,600	\$ 24,029	\$ 2,290	\$ 3,481
The second through fifth years.....	58,449	73,592	2,476	3,771
Total	<u>\$ 74,049</u>	<u>\$ 97,621</u>	<u>\$ 4,766</u>	<u>\$ 7,252</u>

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

Interest expense for the years ended December 31, 2011 and 2010 consisted of the following:

	Year Ended December 31,	
	2011	2010
Accrued dividends on Series C Preferred	\$ 212,226	\$ —
Amortization of Series C Preferred liquidation preference	148,581	—
Amortization of fair value of Series C Preferred detachable warrants	162,657	—
Amortization of debt discount	—	595,896
Amortization of offering costs	99,236	455,189
Interest expense on capitalized leases and debt	74,060	1,078,971
	<u>\$ 696,760</u>	<u>\$2,130,056</u>

(b) Convertible Notes

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

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

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

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

In March 2010, the Company completed a private placement for the sale of \$1,500,000 in convertible notes with an interest rate of 10% (the “2010 Notes”) and issued warrants to purchase 2,055,000 ordinary shares at an exercise price of \$0.365 per share. Agents for the Company received 410,959 warrants as part of their compensation with the same terms as the warrants issued to the note holders. After underwriting expenses, the Company received \$1,173,500 plus an additional amount of \$172,500 which was deposited into an escrow account to for interest payments. Interest is paid monthly from an escrow account funded by a deduction from the proceeds of the private placement to pay the interest to the 2010 Note holders for the first year. The 2010 Notes matured on August 10, 2010 and were extended to February 6, 2011 by paying the 2.5% extension fee and issuing 2,055,000 additional warrants per the terms of the note agreement. The 2010 Notes contain a provision that allowed prepayment at any time at 110% of the principal amount if on or before the maturity date and at 120% thereafter. The 2010 Notes matured on February 6, 2011 and the Company did not

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

repay the outstanding principal amount on the 2010 Notes but, on February 24, 2011, as part of the recapitalization the Company, a private placement offer was closed which included a consent offer to the holders of the 2009 Notes and the 2010 Notes to exchange their notes, whereby each \$1,000 original face amount of notes was exchanged for \$200 in cash and that number of our Ordinary Shares which is equal to the sum of \$1,000 plus applicable accrued interest thereon as of the closing of the offer, divided by \$0.10. The offer closed on February 24, 2011 and holders of \$1,510,625 of the 2010 Notes including accrued interest exchanged the notes into 15,106,237 Ordinary Shares of the Company. At February 24, 2011, all of the 2010 Notes had been retired.

8. Series C Mandatorily Redeemable Convertible Preferred Stock and Warrants

(a) Series C Preferred

On February 24, 2011, the Company issued 3,123,481 shares of its Series C Preferred and five-year warrants to purchase 15,617,405 ordinary shares of the Company at an exercise price of \$0.12 per share, and received \$3,123,481 in gross proceeds. The holders of the Series C Preferred have the right to convert each share of their Series C Preferred into 10,000 Ordinary Shares of the Company, or 31,234,810 Ordinary Shares. At December 31, 2011 the Company has reserved 31,234,810 of its Ordinary Shares to effect the conversion of Series C Preferred.

The Series C Preferred is considered to be mandatory redeemable and is classified as a liability in the Company's consolidated statement of financial position. The Series C Preferred matures on February 24, 2016. Also below, see (d) Mandatory Conversion and (e) Maturity and Mandatory Redemption.

In accordance with IAS 32, the Company estimated the fair value of the liability component of the Series C Preferred to be \$2,978,009, including the related warrants, by discounting the redemption amount at a market rate for a similar liability that does not have an associated equity component. The warrants were issued with the Series C Preferred and their fair value, using the Black Scholes options pricing model, is estimated to be \$814,105, resulting in a fair value of \$2,165,904 for the liability portion of the Series C Preferred. Further, as the Series C Preferred is convertible, a portion of the proceeds were allocated to the conversion feature embedded in the Series C Preferred. The residual amount reflecting the conversion feature of \$145,472 was recorded as the equity component.

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

The Series C Preferred shares earn dividends at 8% per annum. Accrued dividends on the Series C Preferred were \$212,226 for the year ended December 31, 2011. Assuming that none of the Series C Preferred is converted and all held until the Mandatory Redemption Date, the Company expects to accrue dividends on Series C Preferred in the amounts of \$250,562, \$249,878, \$249,878, \$249,878 and \$37,653 for the years ending December 31, 2012, 2013, 2014, 2015 and 2016, respectively.

On January 27, 2011, the Company authorized the Series C Preferred no par value shares and included the preferences, limitations and rights described below. At the same time, 3,000 authorized but unissued share in the Company were, by resolution of the Board of Directors of the Company, allotted for issuance as shares of Series C Preferred. Upon closing of the Recapitalization on February 24, 2011, the Company issued 3,123,481 shares of Series C Preferred. While the number of shares of Series C Preferred issued exceeded the number of shares initially authorized by the Board of Directors,

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

it is allowable under the laws of the Cayman Islands to ratify and confirm the issuance of the additional 123,481 shares of Series C Preferred so long as the total authorized share capital of the Company has not been exceeded. In June 2011, the Board of Directors of the Company approved a resolution to ratify and confirm the issuance of the additional 123,481 shares of Series C Preferred from 3,000 to 3,123,481.

(b) Dividends

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

(c) Voting Rights

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

(d) Mandatory Conversion

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

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

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

(e) Maturity and Mandatory Redemption

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

(f) Liquidation Preferences

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

(g) Registration Rights

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

(h) Other Covenants

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

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

9. Stock Options

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

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

common stock were exchanged for stock options with the same terms to purchase the Company's ordinary shares effective September 18, 2008. All share-based employee compensation will be settled in newly issued shares.

Employee options generally vest over 18 to 36 months as long as the optionee remains in the Company's employ. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Stock-based compensation costs are expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest.

The Company uses the Black-Scholes option pricing model to value stock options. The Black-Scholes model requires the use of a number of assumptions, including expected share price volatility, risk-free interest rates, and the expected term of the options. The expected term of stock options represents the period of time that the stock options granted are expected to be outstanding. The estimated expected share price volatility is based on the combination of the Company's historical share price volatility and the expected volatility of a similar entity with publicly-traded securities. The risk-free interest rate is based on the U.S. Treasury bill rate for the expected term of the related stock options. As the Company does not pay dividends, the dividend rate variable in the Black-Scholes model is zero. The following table summarizes the assumptions used to value stock options granted during the years ended December 31, 2011 and 2010:

	Years Ended December 31,	
	2011	2010
Expected term	2.5-3.3 years	1.0 – 3.3 years
Estimated volatility	113%	38%-50%
Risk-free interest rate	1.76%	1.00%-1.44%
Estimated forfeiture rate.....	5.0%	—
Dividend yield	0%	0%

A summary of options activity under the Plan for the years ended December 31, 2011 and 2010 is as follows:

	Stock Options Denominated in U.S. Dollars			
	Years Ended December 31,			
	2011		2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	3,485,417	\$ 0.44	5,171,944	\$ 0.44
Granted	8,110,000	0.27	125,000	0.43
Expired/ Forfeited	(1,905,417)	0.33	(1,811,527)	0.43
Exercised	—	—	—	—
Outstanding, end of period	<u>9,690,000</u>	<u>\$ 0.32</u>	<u>3,485,417</u>	<u>\$ 0.44</u>
Exercisable, end of period	<u>2,990,695</u>	<u>\$ 0.42</u>	<u>3,225,278</u>	<u>\$ 0.43</u>

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

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

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

On February 23, 2012, the Company held a shareholders' meeting whereupon the shareholders approved the following amendments to the Company's Plan:

- (1) An increase in the number of Ordinary Shares which may be reserved for issuance pursuant to the exercise of options from 12,000,000 to 20,000,000, and
- (2) An increase in the number of Ordinary Shares that may be reserved for issuance pursuant to options granted to Insiders (as defined in TSVX Policy 1.0) from 10% to 15% of issued Ordinary Shares. Under TSXV policy, the latter proposal required "disinterested shareholder approval," whereby shares held by the Company's existing Insiders and their Associates (as defined in TSXV Policy 1.1) are excluded from voting.

As a result of these amendments, the grants of the 3,772,000 options described above may be exercised in accordance with the vesting and other terms of the individual option grants beginning on February 23, 2012.

Stock Options Denominated in Canadian Dollars

	Years Ended December 31,			
	2011		2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	985,000	\$ 0.60	1,324,258	\$ 0.60
Granted	—	—	—	—
Expired/Forfeited.....	(85,000)	0.60	(339,258)	0.60
Outstanding, end of period	<u>900,000</u>	<u>\$ 0.60</u>	<u>985,000</u>	<u>\$ 0.60</u>
Exercisable, end of period	<u>900,000</u>	<u>\$ 0.60</u>	<u>868,333</u>	<u>\$ 0.60</u>

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

A summary of stock options outstanding and stock options exercisable at December 31, 2011 follows:

Stock Options Denominated in U.S. Dollars			
	Stock Options Outstanding		Stock Options Exercisable
Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Term (In years)	Number of Shares
\$0.27-\$0.40	8,075,000	4.41	1,429,167
\$0.41-\$0.60	1,615,000	1.88	1,561,528
	9,690,000	3.98	2,990,695

Stock Options Denominated in Canadian Dollars			
	Stock Options Outstanding		Stock Options Exercisable
Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Term (In years)	Number of Shares
\$0.60	900,000	1.93	900,000

10. Share-based compensation expense:

A summary of share-based compensation expense follows:

	Years ended December 31,	
	2011	2010
Share-based compensation expense – employees and directors	\$ 752,278	\$ 51,170
Share-based compensation expense – consultants	22,275	—
Total share-based compensation expense	\$ 774,553	\$ 51,170

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

11. Warrants

A summary of warrant activity for the years ended December 31, 2011 and 2010 is as follows;

The weighted average fair value of the warrants issued for years ended December 31, 2011 and 2010 is \$.04 and \$.04, respectively. The following are the assumptions used to value the warrants granted during the years ended December 31, 2011 and 2010:

	December 31,	
	2011	2010
Stock Price, in U. S dollars.	\$ 0.05-.06	\$ 0.08-.27
Expected term	5 years	4.92 -5 years
Estimated volatility	115%	50%
Risk free interest rate	0.92%-2.21%	1.46%-2.54%
Dividend yield	0%	0%

The following tables present the composition of warrants outstanding as of December 31, 2011:

Warrants Denominated in U.S. Dollars		
Exercise Prices	Shares	Weighted Average Remaining Contractual Term (years)
\$0.10-\$0.15.....	33,492,469	4.03
\$0.16-\$0.20	—	—
\$0.21-\$0.30.....	23,037,773	3.77
\$0.31-\$0.48.....	15,738,050	0.54
Outstanding as of December 31, 2011	<u>72,268,292</u>	<u>3.19</u>

A summary of warrant activity for the years ended December 31, 2011 and 2010 follows:

	Warrants Denominated in U.S. Dollars			
	Year Ended December 31,			
	2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	31,147,441	\$ 0.35	23,853,870	\$ 0.37
Issued	38,186,401	0.16	7,836,710	0.32
Increase from anti-dilution adjustment.....	2,934,450	0.24	—	—
Exercised	—	—	—	—
Expired.....	—	—	(543,139)	(.87)
Outstanding, end of period	<u>72,268,292</u>	<u>\$ 0.22</u>	<u>31,147,441</u>	<u>\$ 0.35</u>

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

Warrants Denominated in Canadian Dollars

	Year Ended December 31,			
	2011		2010	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning of period	—	\$ —	15,183,517	\$ 0.87
Issued	—	—	—	—
Exercised	—	—	(15,183,517)	(0.87)
Expired	—	—	—	—
Outstanding, end of period	<u>—</u>	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>

Certain of the Company's warrant agreements contain anti-dilution provisions that will cause the exercise price of the warrant to decrease in the event that Company issues equity securities at a price lower than the existing warrant exercise price. As of December 31, 2011, 19,965,886 and 3,639,401 warrants with exercise prices of \$.12 per Ordinary Share and \$.10 per Ordinary Share, respectively, included such anti-dilution provisions. Because of the nature of these anti-dilution provisions, the Company is required to reflect these warrants on the consolidated statement of financial position as liabilities at their fair value. At December 31, 2011, the warrant liability totaled \$624,602.

12. Commitments and Contingencies

On March 1, 2011, the Company entered into a three year data services agreement, which rate terms are effective on July 1, 2011 and are a supplement to an existing data services agreement with the same provider. The agreement requires the Company to pay the greater of actual data fees incurred or \$50,000 per month.

In July 2011, the Company entered into an agreement to lease office space in Denver, Colorado. The lease has a three year term with an option to extend the lease for an additional two years. The Company's minimum lease payments due for 2012, 2013 and 2014 are \$75,000 and \$75,000 and \$62,500, respectively. The minimum lease payments are subject to change based on contracted payment adjustments to accommodate additional employees in the office space. In addition, the Company will pay to the lessor \$2,425 per month for leasehold improvements paid for by the lessor. These payments for 2012, 2013 and 2014 are \$29,118, \$26,916 and \$23,911 respectively.

13. Sale of Ordinary Shares and Warrants

On November 8, 2011, the Company closed its private placement offering of units (the "Units"). The company sold 8,333,333 Units at a price of \$0.24 per Unit for aggregate gross proceeds of U.S. \$2,000,000 (the "Units Offering"). Net proceeds from the Units Offering were \$1,808,646. Each Unit consists of two Ordinary Shares in the capital of the Company and two ordinary share purchase warrants (each, a "Warrant"). The first Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S. \$0.15 at any time prior to 5:00 p.m. on November 8, 2016. The second Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S. \$0.25 at any time prior to 5:00 p.m. on November 8, 2016. In addition, the Company also issued to third party finders who assisted in the Units Offering 1,533,849 warrants that entitle the holder to purchase one additional Ordinary Share at a price of U.S. \$0.15 at any time prior to 5:00 p.m. on November 8, 2016. The total number of Ordinary Shares and warrants issued in the Units Offering was 16,666,667 and 18,220,515, respectively

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

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

14. Income taxes:

The Company's provision for income taxes during the years ended December 31, 2011 and 2010 were different from the amount expected by applying the statutory federal income tax rate to the Company's net loss as reported in the consolidated statement of operations. The approximate differences are as follows:

	Year Ended December 31,	
	2011	2010
Expected tax benefit computed at statutory rate	\$ (915,000)	\$ (751,000)
Expected state tax benefit, net	(78,000)	(65,000)
Effect of permanent differences	186,000	(208,000)
Other	16,000	118,000
Increase in valuation allowance	791,000	906,000
	<u>\$ —</u>	<u>\$ —</u>

Deferred tax assets consisted of the following at December 31, 2011 and 2010:

	December 31, 2010	Recognized in Profit and Loss	Recognized in Equity	December 31, 2011
Non-capital losses.....	\$8,881,000	\$ 703,000	\$ —	\$9,584,000
Share-based compensation.....	79,000	294,000	—	373,000
Property and equipment.....	5,000	5,000	—	10,000
Warrants.....	—	(171,000)	409,000	238,000
Other.....	150,000	(40,000)	—	110,000
Valuation allowance.....	(9,115,000)	(791,000)	(409,000)	(10,315,000)
Outstanding, end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

At December 31, 2011, the Company has net operating loss carryforwards of approximately \$25,172,000 which, if not utilized, begin to expire in 2025. As a result of certain changes in the Company's ownership, the future utilization of the net operating loss and credit carryforwards may be limited under Internal Revenue Code Section 382. As the Company is unable to determine that it is more likely than not that future taxable income of the Company will be sufficient to utilize the net operating loss carryforwards, a valuation allowance has been established against those deferred tax assets.

The Company files income tax returns in the U.S. federal jurisdiction and the State of Colorado. The Company is subject to U.S. federal and state examinations for 2006 through 2011. Management does not believe there will be any material changes in its uncertain tax positions over the next twelve months.

ID WATCHDOG, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in U.S. Dollars)

15. Benefit Plan

During 2006, the Company established a 401(k) plan (the "401(k) Plan"), which provides retirement savings options for all eligible employees. The Company makes a matching contribution based on the participants' eligible wages. During the years ended December 31, 2011 and 2010, the Company made matching contributions of \$13,535 and \$15,292, respectively.

Effective January 1, 2012, the Company changed trustees and administrators for the 401(k) Plan and also made certain required Internal Revenue Service amendments.

16. Subsequent Event

On January 16, 2012, the Company satisfied \$38,400 of vendor trade payables by issuing to the vendor 320,000 of its Ordinary Shares and two ordinary share purchase warrants (each, a "Warrant"). The first Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S. \$0.15 and the second Warrant entitles the holder to purchase one additional Ordinary Share at a price of U.S. \$0.25. Both the first and the second Warrant will expire on January 16, 2017.

17. Correction of Clerical Errors

The accompanying Consolidated Statement of Financial Position as of December 31, 2011, and the Statements of Operations, Shareholder's Deficit and Cash Flows for the year ended December 31, 2011, have been restated to correct a clerical error. To correct for this clerical error accumulated deficit and net loss were increased by \$37,000 from the amounts previously reported. Also, shareholder's deficit in the Consolidated Statement of Financial Position at December 31, 2010 was initially reported as \$(5,258,300) and was increased to \$(5,295,300).