ID Watchdog, Inc.
Management's Discussion and Analysis
For the year ended December 31, 2012

Introduction

The following discussion and analysis provides information that management believes is relevant to an assessment and understanding of ID Watchdog, Inc.'s (the "Company's or the "Company") consolidated results of operations and financial position. This "Management's Discussion and Analysis" ("MD&A") should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2012 and the notes thereto. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in US dollars as all of the Company's revenues and expenses are recorded in US dollars. Additional information on the Company, including the Company's audited financial statements for the year ended December 31, 2011, can be obtained from SEDAR at www.sedar.com as well as from the Company's website at www.idwatchdog.com in the "Company Overview" section. Information contained in this report is qualified by reference to the discussion concerning forward-looking information and statements on page 21 of this MD&A.

International Financial Reporting Standards ("IFRS")

The Company's audited consolidated financial statements and the financial information included in this MD&A have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") that are effective as of December 31, 2012.

Except as otherwise noted, this MD&A is presented in United States dollars, which is the Company's functional currency.

Background and Description of Business

The Company provides a variety of identity theft detection, protection and resolution services primarily to individual customers on a subscription basis, through its wholly owned subsidiary, Identity Rehab Corporation, which was founded in 2005.

Identity theft occurs when someone fraudulently uses personal identifying information (e.g. name, birth date, social security number, credit card number) to obtain goods or services under the identity theft victim's name. The FBI has described identity theft as one of the fastest growing crimes in the United States.

We have developed comprehensive solutions that incorporate elements from six distinct categories designed to work together to detect, diagnose, and resolve consumer identity theft and other consumer data issues as follows:

- **Identity Monitoring:** ID Watchdog's patent pending identity monitoring service will scan public and private consumer databases generating client alerts of suspicious activity associated with name, address, phone number, date of birth, and social security number.

- **Cyber Monitoring**: Our service will scan known malicious chat rooms, blogs, and underground websites for client name, credit card information, and social security number that can be bought and sold for fraudulent usage.

- **Non-Credit Loan Monitoring**: This service will monitor data feeds from non-credit loan outlets which may provide applicants a loan of up to $1,000 while requiring only an address and proof of employment.

- **Credit Reports and Credit Scores:** We provide on-line access to credit reports and credit scores from Experian, TransUnion and Equifax to check the validity and accuracy of client account information.

- **Credit Monitoring**: We will monitor daily for changes to the customer's credit reports from Experian, Equifax, and TransUnion. There are twenty six different alert types that can detect potential fraudulent activity.

- **Resolution Services:** In cases where identity theft is detected, our resolution service will find it, stop it, and fix it before any real damage occurs. Identity theft cases are assigned to a dedicated in-house staff of identity theft resolution experts.

Marketing of Services

We utilize strategic partner distribution channels to assist us in selling our identity theft protection services to our partners' customer bases. These channels include the following:

- **Employee Benefit Channel**. A significant portion of our existing customers were acquired through relationships with entities that focus on designing and negotiating customized employee benefit programs for their employer clients ("Benefits Brokers"). In this channel, our Benefit Broker partners promote our services to their employers clients who then offer our services as a voluntary employee benefit as part of their employee benefit program (the **"Employee Benefit Channel"**). We are seeking to expand this sales channel and ultimately our customer base by significantly expanding the number of these Benefit Broker relationships. We commenced these expansion efforts in the second quarter of 2012 and we are in the early stages of building a nationwide network of Benefits Brokers.

- **Anti-Virus Channel**. The Company has partnered with certain anti-virus and other desktop software providers to provide its identity theft protection services as a complimentary add-on product offering directly to the partners' end-users through their customers' desktops (the **"Anti-Virus Channel"**). The Company is offering "free alerts", which are comprised of personal alerts based upon changes to the individual's credit report, as well as generic informational alerts. These "free alerts" we believe, over the long-term, will form a foundation upon which the Company will seek to upgrade users from "free alerts" to a premium identity theft protection product. While the Company will not be paying for access to market to our partners' customers, we will be sharing in the revenue from each sale with our partners

  In early 2011, the Company began to develop the Anti-Virus Channel and has partnering agreements with four anti-virus software companies and one desktop

software company. As of July 2012, the Company had integrated and launched its services with all of its partners.

- **Tech Support Channel**. In this channel our partners, who provide personal computer performance enhancement services, sell our services as an add-on product offering directly to their customers (the **Tech Support Channel"**).

Consumer Marketing Channel. In the past the Company utilized direct consumer advertising, telemarketing and on-line affiliate marketing programs to sell its services (the **"Consumer Marketing Channel"**). While these marketing tactics generated significant new customer growth, we determined that high customer acquisition costs, in addition to consuming cash resources, delayed the break-even point to unacceptably long periods. While the Company no longer utilized these strategies to sell its services, we still provide services to a significant number of subscribers that were sold through the Consumer Marketing Channel.

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Results of Operations

The financial information set out below is based on and derived from our audited consolidated statements of operations for the years ended December 31, 2012, 2011 and 2010.

	Year Ended December 31,		
	2012	2011	2010
Revenue	$ 1,808,522	$ 2,020,063	$ 3,329,442
Cost of services	1,119,859	940,796	395,832
Gross profit	688,663	1,079,267	2,933,610
Operating expense	2,628,786	3,446,710	4,010,769
Operating loss	(1,940,123)	(2,367,443)	(1,077,159)
Net loss and comprehensive loss applicable to ordinary shares	(2,151,004)	(2,613,541)	(2,146,402)
Net loss and comprehensive loss applicable to ordinary shares	$(2,151,004)	$(2,613,541)	$(2,146,402)
Basic and diluted net loss per share	$ (0.02)	$ (0.03)	$ (0.03)

Balance Sheet Data:

	As of December 31,		
	2012	2011	2010
Cash and cash equivalents and available-for sale securities (including restricted cash of $0, $0 and $61,057 at December 31, 2012, 2011 and 2010, respectively)	$ 319,073	$ 1,589,688	$ 160,139
Total Assets	690,835	1,990,838	572,411
Total long term liabilities	3,126,659	2,979,360	39,476
Total liabilities	3,928,423	3,675,199	5,867,711
Total Shareholders' deficit	(3,237,588)	(1,684,361)	(5,295,300)

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Summary of Quarterly Results
(Amounts presented in U.S. Dollars)

	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012
Revenue	$ 460,093	$ 434,052	$ 470,320	$ 444,057
Net loss	$ (390,311)	$ (646,990)	$ (499,884)	$ (613,819)
Net loss applicable to ordinary shares	$ (390,311)	$ (646,990)	$ (499,884)	$ (613,819)
Basic and diluted net loss per share	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.01)

	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011
Revenue	$ 477,552	$ 446,817	$ 523,051	$ 572,643
Net income (loss)	$ 484,200	$ 709,174	$ (2,661,611)	$ (1,145,304)
Net income (loss) applicable to ordinary shares	$ 484,200	$ 709,174	$ (2,661,611)	$ (1,145,304)
Basic net income (loss) per share applicable to ordinary shares	$ 0.00	$ 0.01	$ (0.03)	$ (0.01)
Diluted net income (loss) per share applicable to ordinary shares	$ 0.00	$ 0.00	$ (0.03)	$ (0.01)

The above quarterly information has been prepared by management in accordance with IFRS.

Revenues generally decreased throughout the quarters, as the revenues associated with our Consumer Marketing Channel continued to decline and were only partially offset by an increase in revenue generated from customers through our Employee Benefit, Tech Support and Anti-Virus Channels.

Our net income (loss) changed significantly from quarter to quarter primary due to the recognition of gain (loss) on warrant liabilities and to a lesser extent from generally declining gross margin due to lower levels of revenues.

Results of Operations

Comparison of the year ended December 31, 2012 to the year ended December 31, 2011.

Revenues

Revenue decreased $211,541, or 10.5%, from $2,020,063 for the year ended December 31, 2011 to $1,808,522 for the year ended December 31, 2012. This decrease in revenue is the result of a 10.7% decrease in the average rate paid by our customers.

When many of our subscription agreements generated from our Consumer Marketing Channel matured during the year, our customers chose to either end their subscription or to select an alternative subscription plan with a lower monthly rate, which caused our average rate per customer to decline during 2012 as compared to the prior year. Further, all of our new customers are generated from the Employee Benefit, Tech Support and Anti-virus channels, which have a lower net revenue per customer as compared to the rates we realize from our Consumer Marketing Channel.

We anticipate that the average rate paid by our customers will continue to decline modestly over the next several quarters. While the new customers from our Employee Benefit, Tech Support and Anti-virus channels generate a lower net revenue per customer as compared to the rates we receive from our Consumer Marketing Channel, these new customers are acquired at a much lower cost per customer and we believe they will also subscribe to our services for longer periods as compared to the Consumer Marketing Channel customers.

Cost of Revenue

Cost of revenue consists primarily of the following:

- Fees paid to a credit bureau and for other data providers;
- Cost of personnel and other related costs incurred for customer identity monitoring and resolution; and
- Costs for credit card processing.

Cost of revenue for the year ended December 31, 2012 was $1,119,859, resulting in a gross profit of $688,663, while our cost of revenue for the year ended December 31, 2011, was $940,796, resulting in a gross profit of $1,079,267. Gross margin for the year ended December 31, 2012 was 38.1% as compared to a gross margin of 53.4% for the year ended December 31, 2011. The increase in cost of revenue is primarily a result of a $306,103 increase in data service expenses, which were partially offset by a $47,987 decrease in personnel related costs to provide the services, a $24,005 decrease in costs for credit card processing as a result of a decrease in revenue during the period and a $36,900 write-off of certain software licenses during the year ended December 31, 2011. Data service expenses increased due to a data service fee increase that took effect in July 2011.

On March 1, 2011, the Company entered into a three year data services agreement, which rate terms were effective on July 1, 2011 and were a supplement to an existing data services

agreement with the same provider (the "Data Agreements"). The agreement required the Company to pay the greater of actual data fees incurred or $50,000 per month.

On November 19, 2012, the Company entered into a new two year agreement with this data provider, which becomes effective on January 1, 2013, requires the Company to pay a monthly fee equal to the greater of actual data usage priced at the contractual rates or $10,000, and terminates the Data Agreements effective December 31, 2012.

Had this new data agreement been in place at the beginning of 2012, our gross profit margins would have been 65.5% for the year ended December 31, 2012.

General and Administrative Expense

General and administrative expense consists primarily of the following:

- All salaries and related benefits (excluding marketing salaries, related benefits and stock – based compensation);
- Professional services expenses including legal fees, accounting fees and other professional services;
- Office rent and other office related costs; and
- Other administrative expenses.

General and administrative expense decreased $478,861, or 25.1%, from $1,904,184 for the year ended December 31, 2011 to $1,425,323 for the year ended December 31, 2012. The significant items contributing to the decrease are as follows:

- A $201,343 decrease in legal fees. During the year ended December 31, 2011, the Company incurred legal fees to research and advice on certain securities related projects, and to advise on the resolution of two contractual disputes. No similar expenses were incurred during the year ended December 31, 2012.
- A $100,508 decrease in travel and entertainment expenses as management of the Company made fewer trips to Europe to meet with certain of its anti-virus partners during the year ended December 31, 2012, as compared to the prior year.
- A $97,500 decrease in consulting fees paid to Mr. Yurek our former CEO; and
- A decrease in bad debt expense of $49,032. No similar expense was incurred during the year ended December 31, 2012.

Marketing Expense

Marketing expense consists primarily of the following:

- Salaries, commissions and benefits of sales and marketing personnel;
- Benefit brokers' commissions;
- Marketing and promotional materials;
- Public relations expenses; and
- Other marketing expenses

Sales and Marketing expense for the year ended December 31, 2012 totaled $592,843 as compared to $597,052 for the similar period in 2011, a decrease of $4,209, or 0.7%. This decrease was primarily the result of an $83,013 decrease in public relations expenses and a $35,081 decrease in telecommunications and facilities expenses. These decreases were partially offset by a $93,169 increase in salaries, commissions, benefits and recruiting expenses due to the addition of sales and account management personnel. These personnel were help build our national network of Benefits Brokers and expand our Employee Benefit Channel.

Stock-based Compensation

Stock-based compensation expense for the year ended December 31, 2012 totaled $519,971 as compared to $774,553 for the similar period in 2011, a decrease of $254,582, or 32.9%.

During 2012, the Company granted 3,687,000 stock options, net of options forfeitures as compared to 7,401,583 stock options, net of option forfeitures, granted in 2011. The weighted average fair value of the options granted in 2012 and 2011 was $0.02 per option and $0.187 per option, respectively. The decrease in the number of stock options granted as well as a decrease in the weighted average fair value of those options granted resulted in a lower level of stock-based compensation expense in 2012 as compared to amounts recorded in 2011.

Related Party Expense

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 and his affiliates 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 office rent, equipment and supplies agreement effective September 21, 2011. Also, during the third quarter of 2011, the Company received notice from Mr. Yurek that he had ceased providing certain consulting services to the Company under a month to month verbal consulting agreement. As a result, effective August 31, 2011, the Company is no longer receiving or paying for these month to month consulting services.

Following are services provided by Mr. Yurek, or his affiliates including VCC, which were considered related party expense for the period January 1 to March 11, 2011. The expenses disclosed below only include transactions with Mr. Yurek or VCC through and including March 11, 2011.

a) Marketing Expenses

During 2011, 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, the Company incurred call center marketing expenses of $10,800.

(b) Office Rent, Equipment and Supplies

During 2011, 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, the Company incurred $18,093 of expenses under this arrangement.

(c) Consulting Fees to Daryl Yurek

During 2011, 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, the Company recognized $30,277 of consulting fees 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, 2012, the note receivable balance, including accrued interest totaled $46,907 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 $1,151 and $4,338 for the years ended December 31, 2012 and 2011, respectively. The Company recognized interest income of $1,151 and $4,338 for years December 31, 2012 and 2011, respectfully. For the years ended December 31, 202 and 2011, the Company recognized bad debt expense for this note receivable of $1,151 and $46,607, respectively, which is reflected in general and administrative expense in the accompanying statement of operations.

Interest Expense

Interest expense includes dividends of the Series C Preferred shares, which accrue at 8% per annum, amortization of the liquidation preferences on the Series C Preferred shares, amortization of the offering costs incurred in the offering of the Series C Preferred shares and interest on the Company's capitalized lease obligations.

Interest expense for the years ended December 31, 2012 and 2011 consisted of the following:

	Year Ended December 31,	
	2012	2011
Accrued dividends on Series C Preferred	$ 248,217	$ 212,226
Amortization of Series C Preferred liquidation preference	173,603	148,581
Amortization of fair value of Series C Preferred detachable warrants	190,049	162,657
Amortization of offering costs	115,949	99,236
Interest expense on capitalized leases and debt	12,970	74,060
	$ 740,788	$ 696,760

For the year ended December 31, 2012, interest expense reflects a full year of interest expense on the Series C Preferred as compared to approximately 10.14 months of interest expense in 2011.

Gain (Loss) on Warrant Liabilities

Certain of our warrants contain anti-dilution provisions, which if triggered by the issuance by the Company of equity securities below certain levels as outlined in the individual warrant agreements, would result in a reduction of the exercise price of the warrants. We have recorded these warrants as warrant liability at fair value in the accompanying consolidated statements of financial position. Each period, we adjust the estimated fair value of these warrants 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 years ended December 31, 2012 and 2011, we recognized a non-cash gain from the change in the fair value of these warrants of $524,772 and $450,625, respectively.

Comparison of the quarter ended December 31, 2012 to the quarter ended December 31, 2011.

Revenues

Revenue decreased $17,459, or 3.7%, from $477,552 for the fourth quarter of 2011 to $460,093 for the fourth quarter of 2012. This decrease in revenue is primarily the result of a 19.4% decline in the average rate paid by our customers during the fourth quarter of 2012 as compared to the similar period in 2011. When many of our subscription agreements generated from our Consumer Marketing Channel matured during the year, our customers chose to either end their subscription or to select an alternative subscription plan with a lower monthly rate, which caused our average rate per customer to decline during the fourth quarter of 2012 as compared to the similar period in 2011. The decrease in revenue as a result of the average

lower rates paid by our customers was substantially offset by an average increase in subscribers of 19.5% in the fourth quarter of 2012 as compared to the similar period in 2011.

While the new customers from our Employee Benefit, Tech Support and Anti-virus channels generate a lower net revenue per customer as compared to the rates we receive from our Consumer Marketing Channel, these new customers are acquired at a much lower cost per customer and we believe they will also subscribe to our services for longer periods as compared to the Consumer Marketing Channel customers.

Cost of Revenue

Cost of revenue for the fourth quarter of 2012 was $272,547, resulting in a gross profit of $187,546, while our cost of revenue for the fourth quarter of 2011, was $289,359, resulting in a gross profit of $188,193. The gross margin for the fourth quarter of 2012 was 40.8% as compared to a gross margin of 39.4% for the fourth quarter of 2011.

General and Administrative Expense

General and administrative expense increased $27,174, or 10.2%, from $267,048 during the fourth quarter of 2011 to $294,222 during the fourth quarter of 2012. The increase includes:

- A $61,359 increase in professional service expenses including accounting and consulting fees; and
- A $20,208 decrease in travel expenses.

Marketing Expense

Sales and Marketing expense for the fourth quarter of 2012 totaled $143,817 as compared to $142,225 for the similar period in 2011, an increase of $1,592, or 1.1%. This increase was primarily the result of a $37,845 increase in salaries, commissions and benefits due to the addition of sales and account management personnel, which was partially offset by a $36,312 decrease in public relations expenses.

Stock-based Compensation

Stock-based compensation expense for the fourth quarter of 2012 totaled $74,075 as compared to $162,108 for the similar period in 2011, a decrease of $88,033, or 54.3%.

The decrease in the number of stock options granted during 2012, as well as a decrease in the weighted average fair value of those options grants, resulted in a decrease in stock-based compensation expense in the fourth quarter of 2012 as compared to the similar period in the prior year.

Interest Expense

	For the three Months Ended December 31,	
	2012	2011
Accrued dividends on Series C Preferred	$ 61,974	$ 62,984
Amortization of Series C Preferred liquidation preference	43,366	42,451
Amortization of fair value of Series C Preferred detachable warrants	47,473	48,710
Amortization of offering costs	28,964	29,960
Interest expense on finance leases and debt	2,890	4,242
Total Interest Expense	$ 184,667	$ 188,347

Gain (Loss) on Warrant Liabilities

Certain of our warrants contain anti-dilution provisions, which if triggered by the issuance by the Company of equity securities below certain levels as outlined in the individual warrant agreements, would result in a reduction of the exercise price of the warrants. We have recorded these warrants as warrant liability at fair value in the accompanying consolidated statements of financial position. Each period, we adjust the estimated fair value of these warrants through a charge or credit to earnings until such time as the instruments are exercised, expire or are permitted to be classified in shareholders' equity. During the three months ended December 31, 2012 and 2011, we recognized a non-cash gain from the change in the fair value of these warrants of $140,614 and $1,086,625, respectively. These gains are the result of a decrease in the fair value of these warrants driven primarily by a decrease in the share price of the Company's Ordinary Shares.

Liquidity and Capital Resources

Recapitalization of the Company and Issuance of Series C Convertible Preferred Shares

The Company has incurred significant losses from operations and has funded these losses primarily through funds raised in its 2008 Initial Public Offering ("IPO") and from private placements of debt and equity securities.

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.

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 $814,345 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 Notes and the 2010 Notes, the holders received $200 in cash and that number of shares of our Ordinary Shares which is equal to the sum of $1,000 plus applicable accrued interest thereon as of the closing of the offer, divided by $0.10. Holders of $271,100 face amount of the 2009 Notes and the 2010 Notes chose not to participate in the exchange and were repaid in cash. As of February 24, 2011, all of the 2009 and 2010 Notes had been repaid.

- 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.

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. Below is a summary of the actual use of proceeds from the Units Offering.

Proceeds from Offering

Gross Proceeds from Units Offering	$2,000,000
Less: Offering Costs	(191,354)
Net Proceeds from Units Offering	$1,808,646

Use of Proceeds from Offering

Operating Deficit for the period November 8, 2011 to December 31, 2012 (1)	$1,444,547
Expense for additional personnel for the period November 8, 2011 to December 31, 2012	181,038
Total Actual Use of Proceeds	$1,625,585
Net Proceeds of Units Offering available to fund future operating deficits, compensation for additional personnel and for general working capital purposes	$ 183,061

'(1) Operating deficit is the operating loss plus depreciation and amortization and stock based compensation and expense for additional personnel.

Liquidity

	As of December 31,			
	2012		***2011***	
Current Assets				
Cash	*$*	*319,073*	*$*	*854,688*
Available-for-sale securities		-		*735,000*
Accounts Receivable		*144,561*		*109,591*
Prepaid Expenses		*73,466*		*52,901*
		537,100		*1,752,180*
Current Liabilities				
Accounts payable and accrued liabilities	*$*	*521,134*	*$*	*465,039*
Deferred Revenue		*267,056*		*215,200*
Current portion of long-term debt		*13,574*		*15,600*
		801,764		*695,839*
Net Working Capital	**$**	**(264,664)**	**$**	**1,056,341**

As of December 31, 2012, cash and cash equivalents and available-for-sale securities totalled $319,073 compared to $1,589,688 as of December 31, 2011. Net working capital at December 31, 2012 was $(264,664) with a current ratio of .67, compared to $1,056,341 at December 31, 2011, with a current ratio of 2.52, or a decrease of $1,321,005 of net working capital. The working capital used during the year ended December 31, 2012, was primarily to fund operating cash flow deficits.

For the years ended December 31, 2012 and 2011, we had cash outflows from operations of $(1,248,518) and $(2,465,735), respectively. The decrease in cash used in operating activities, when comparing the two periods, was primarily the result of the repayment of $814,345 of vendor payables in 2011, as part of the Company's February 24, 2011 refinancing, and a net increase in deferred revenues of $197, 418.

For the years ended December 31, 2012 and 2011, cash flows provided by (used in) investing activities totalled $729,274 and $(727,499), respectively. Cash flows provided by investing activities in 2012, were primarily the result of the sale of $735,000 of available-for-sale securities, which were also purchased in 2011 and generated substantially all of the cash using in investing activities.

Cash flows from financing activities totalled $(16,371) and $3,948,840, respectively for the years ended December 31, 2012 and 2011, respectively, and are as follows:

	Year Ended December 31,	
	2012	**2011**
Proceeds from issuance of Series C Preferred Stock and warrants issued, net of issuance costs	$ —	$ 2,689,577
Repayment of Debt	—	(271,100)
Issuance costs related to conversion of debt and trade payables into ordinary shares	(771)	(271,601)
Proceeds from the Issuance of Ordinary Shares and warrants	—	2,000,000
Issuance costs related to for the issuance of Ordinary Shares and warrants	—	(191,354)
Repayment of finance lease obligations	(15,600)	(6,682)
Net cash provided by (used in) financing activities	$ (16,371)	$ 3,948,840

Commitments

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

On November 19, 2012, the Company entered into a new two year agreement with this data provider, which became effective on January 1, 2013, requires the Company to pay a monthly fee equal to the greater of actual data usage priced at the contractual rates or $10,000 and terminates the Data Agreements effective December 31, 2012.

In July 2011, the Company entered into an agreement to lease office space in Denver, Colorado. The lease commenced on September 1, 2011, has a 38 month term with an option to extend the lease for an additional two years. The Company's minimum lease payments for 2013 and 2014 are $77,917 and $66,666, respectively. The minimum lease payments are subject to changes based contractual payment adjustments to accommodate additional employees in the office space and annual lease payment adjustments. In addition, the Company agreed to pay the lessor monthly payments of $2,468 for leasehold improvements paid for by the lessor. The scheduled finance lease payments for 2013 and 2014 are $29,622 and $24,685 respectively.

Capital Resources

The Company will seek to grow its customer base primarily through the Employee Benefits Channel, through the Tech Support Channel and through the Anti-Virus Channel.

The Company continues to make progress in building its Employee Benefit Channel by expanding its network of employee benefit brokers who market our services to their employer clients for inclusion in the clients' employee benefit plans as a voluntary employee benefit.

The Company has partnered with certain anti-virus and other desktop software providers to provide our identity theft protection services as a complimentary add-on product offering directly to the partners' end-users through their customers' desktops. The Company began to

develop the Anti-Virus Channel in early 2011 and, to date; this channel has not generated a meaningful number of customers or revenues. Further, the early results from the July 2012 launch of a significant anti-virus software provider have been substantially below our expectations. Therefore, there can be no assurance that the Company will be successful over the long-term in generating any significant revenue from the Anti-Virus Channel.

Our cash balances and as of December 31, 2012 were $319,073. We are dependent upon our existing cash balances, along with our cash flow generated from gross profits, available borrowings under our Credit Facility (as defined below), if any, and/ or additional debt or equity financing to fund our operating activities, our expansion plans and other working capital needs.

The Company believes that it will likely generate positive operating income, before depreciation, amortization and stock-based compensation, beginning in the second half of 2013. We anticipate modest sequential revenue growth beginning in the second quarter of 2013 and continuing through 2013, driven by growth from both our Employee Benefits Channel and our Tech Support and Anti-Virus Channels.

However, should the Company fall short of its projected revenue forecast, be unable to borrow the Second Draw, for which there can be no assurance, or secure other financing in a timely fashion, we will likely need to take further measures to reduce our operating costs and improve our working capital position and we may not be successful in achieving our revenue and operating income targets. While we believe we can reduce costs to achieve positive operating income, before depreciation, amortization and stock-based compensation, in the short-term, given our current level of revenue, further cost reductions may limit our ability to grow our revenue, both in the short and long-term.

On November 19, 2012, the Company entered into a new two year agreement with one of its data providers, which became effective on January 1, 2013, requires the Company to pay a monthly fee equal to the greater of actual data usage priced at the contractual rates or $10,000 and terminated the Data Agreements with this provider effective December 31, 2012. This new data agreement reduces our minimum payment for these data services by $40,000 per month beginning January 1, 2013. As a result, our gross margins are projected to improve from 38.1% in 2012 to a range of 62% to 68% for 2013.

We further reduced our operating costs in the fourth quarter of 2012, primarily by reducing personnel and adjusting the compensation levels of certain employees.

To further improve our financial flexibility, on February 8, 2013, ID Rehab entered into a $500,000 secured credit facility (the "Credit Facility") with Costella Kirsch, a California based lender (the "Lender"). ID Rehab borrowed $250,000 on the Credit Facility at closing and may, at its discretion, borrow an additional $250,000 (the "Second Draw") on or before July 31, 2013, if certain financial targets are achieved. At closing the Company issued to the Lender 1,000,000 of its Ordinary Shares and will issue an additional 1,000,000 of its Ordinary Shares to the Lender, if the Second Draw is borrowed, as a Credit Facility fee. The Credit Facility matures on June 30, 2016, is secured by all of the assets of ID Rehab and bears interest at 13% per annum. Payments on the Credit Facility are interest only through 2013 with the principal and interest due in equal installments over the remaining 30 month term. The borrowings from the credit facility will be used for general corporate purposes.

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 April 17, 2013, we have the following equity securities outstanding:

Ordinary Shares

- 119,834,997 Ordinary Shares outstanding;
- 54,337,090 warrants, each of which is exercisable for one Ordinary Share at prices ranging from $0.10 to $0.48;
- 13,277,000 stock options, each of which is exercisable for one Ordinary Share at prices ranging from $0.10 to $0.60 per share; and
- 900,000 stock options, each of which is exercisable for one ordinary share at CDN$0.60 per Ordinary Share.

The warrants outstanding are denominated in U.S. dollars and 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 cash proceeds from the exercise of these warrants if they are exercised due to the aforementioned cashless exercise provisions.

Certain of the warrant agreements contain anti-dilution provisions that require a reduction in the exercise price of the warrant in the event the Company issues or sells its Ordinary Shares for an effective price that is less than the then existing exercise price of the warrant. During 2011, the sale of the Series C Preferred shares and the Units Offering trigged these anti-dilution provisions in certain of our warrant agreements.

Also, it is unlikely that we will receive any of the cash proceeds from the exercise of the stock options, if they are exercised, since the stock options contain a cashless exercise provision, which, upon certain conditions, permit the holder to exercise their stock options on a net cash exercise basis and receive Ordinary Shares without payment of any cash consideration.

Series C Preferred Stock

On February 24, 2011 the Company issued 3,123.481 shares of its Series C Preferred. In June 2012, 50 shares of the Series C Preferred were converted to Ordinary Shares. As of December 31, 2012, the Company had outstanding 3,073,481 shares of its Series C Preferred. 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 30,734,810 Ordinary Shares. The Company has reserved 30,734,810 of its Ordinary Shares to effect the conversion of Series C Preferred. The Series C Preferred is considered to be mandatory redeemable shares and is classified as a liability on the Company's consolidated statement of financial position as of December 31, 2012 and 2011.

The Series C Preferred has voting rights and powers equal to the voting rights of Ordinary Shares on an "as if" converted to ordinary shares basis.

In the event the Company issues or sells its Ordinary Shares for an effective price (the "New Issuance Price") that is less than the then existing conversion price of the Series C Preferred in effect immediately prior to such issue or sale, then immediately after such issuance the

conversion price then in effect shall be reduced to the New Issuance Price, but not less than $.15 per Ordinary Share.

Off-balance Sheet Arrangements

Other than the office lease commitment described in Note 12 of the Company's December 31, 2012 audited consolidated financial statements and under the "Commitments " section above, the Company did not have any off-balance sheet arrangements as of December 31, 2012 or December 31, 2011.

Transactions with Related Parties

See Related Party Expense in the Results of Operations section of this report and in Note 8 of the Company's December 31, 2012 audited consolidated financial statements for a description of transactions with related parties.

Contingencies

As of the date of this report the Company is not involved in any litigation, threatened litigation or other claims.

Recent Accounting Pronouncements

The IASB has 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, 2012. 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 have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods:

IFRS 9 Financial Instruments

IFRS 9 addresses the classification and measurement of financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, however is available for early adoption. The Company has not early adopted this standard and has not fully assessed the impact of adopting IFRS 9.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes principles for the presentation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Based on a preliminary assessment, the Company does not expect any significant impact on the financial statements upon adoption.

IFRS 11 Joint Arrangements

IFRS 11 provides for the accounting of joint ventures by focusing on the rights and

obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminated the option to account for jointly controlled entities using the proportionate consolidation method. The standard is effective for annual periods beginning on or after January 1, 2013. The Company has not adopted this standard as the standard is not applicable to the Company as this time.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 provides the disclosure requirements for interest held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet vehicles. The standard requires an entity to disclose information regarding the nature and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is effective for annual period beginning on or after January 1, 2013. The Company has not adopted this standard as the standard is not applicable to the Company as this time.

IFRS 13 Fair Value Measurement

IFRS 13 provides a precise definition of fair value, establishes a single source for determining fair value and introduces consistent requirements for disclosure relating to fair value measurements. The standard will be effective for annual periods beginning on or after January 1, 2013. The new requirements will result in additional disclosures about all assets and liabilities measured at fair value on the financial statements upon adoption.

IAS 27 Separate Financial Statements

IAS 27 prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associates when the entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investment at cost or in accordance with IFRS 9, Financial Instruments. IAS 27 is effective for annual periods beginning on or after January 1, 2013. The Company has not adopted this standard as the standard is not applicable to the Company as this time.

IAS 28 Investments in Associates and Joint Ventures

IAS 28, revised the existing standard and prescribes the accounting for investments in associates and joint ventures and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. The Company has not adopted this standard as the standard is not applicable to the Company as this time.

IAS 32 and IFRS 7 Offsetting Financial Assets and Financial Liabilities

In December 2011, the IASB published Offsetting financial Assets and Financial Liabilities and issued new disclosure requirements in IFRS 7 Financial Instruments: Disclosures. The amendments to IAS 32 provide specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists, and when an entity meets the criterion for the intent to settle on a net basis. The effective date for the amendments to IAS 32 is for annual period beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is for annual periods beginning after January 1, 2013. These amendments are to be applied retrospectively. The Company has not adopted

this standard as the standard is not applicable to the Company as this time.

Only IFRS 9, IFRS 10 and IFRS 13 are applicable to the Company, and will become mandatory, or available for early adoption, for the Company on January 1, 2013.

Financial Instruments and Other Instruments

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 of its Ordinary Shares at an exercise price of $0.12 per share and received gross proceeds of $3,123,481. In addition, the Company issued to the underwriters of this offering five-year warrants to purchase 4,348,481 of its Ordinary Shares at an exercise price of $0.12 per share. The Series C Preferred is considered to be mandatory redeemable shares and is classified as a liability on the Company's statement of financial position.

In accordance with IAS 32, the Company estimated the fair value of the liability component of the Series C Preferred Stock 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 stock. 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 Series C Preferred and the related warrants are classified as a liability, and the discount will be amortized over the period from issuance to February 2016 (the redemption date) as a charge to interest expense.

Forward-looking Information and Statements

Certain statements contained in this report constitute forward looking information within the meaning of securities laws. Implicit in this information, particularly in respect of the Company's future operating results and economic performance are assumptions regarding projected revenues and expenses. These assumptions, although considered reasonable by the Company at the time of preparation, may prove to be incorrect. Readers are cautioned that the Company's actual future operating results and economic performance are subject to a number of risks and uncertainties, including general economic, market and business conditions, and could differ materially from what is currently expected. Forward-looking information contained in this report is based on management's current estimates, expectations and projections, which management believes are reasonable as of the current date. The reader should not place undue reliance on forward-looking statements and should not rely upon this information as of any other date. In addition to presenting an analysis of results for the three and twelve month period ended December 31, 2012 and 2011, this report also discusses certain important events that occurred between the end of the period and April 17, 2013.

Forward-looking information included or incorporated by reference in this document includes statements with respect to the Company's:

- Efforts to upgrade users from "free alerts" to a premium identity theft protection product--See Marketing of Services;
- Efforts to establish distribution relationships with companies that provide personal computer performance enhancement services in order to generate additional sales--See Marketing of Services;
- Efforts and plans to expand its employee benefits distribution channel, the number of benefits brokers and our customer base-- See Marketing of Services;
- Position that it is unable to provide assurance that it will be successful in generating any significant revenue from its Anti-Virus Channel--See Capital Resources;
- Belief that it will achieve positive operating income, before depreciation, amortization and stock-based compensation, in the second half of 2013 and modest revenue growth beginning in the second quarter of 2013--See Capital Resources;
- Ability to further reduce our cost structure in order to achieve positive operating income, before depreciation, amortization and stock-based compensation; and
- Ability to achieve the required financial targets in order to borrow additional funds under our Credit Facility --See Capital Resources.

Material Risk Factor and Assumptions

The following table outlines material forward-looking information included in the MD&A:

Forward-looking Information	Key Assumptions	Most Relevant Risk Factors
Certain beliefs surrounding the future revenue generating potential of the Anti-Virus Channel.	Significant uncertainly surrounding the number of paying customers the Company may be able to attract through the Anti-Virus Channel.	The Company may not be successful in generating a meaningful number of paying customers due to product pricing or other offering terms, ineffective or insufficient marketing support and a lack of customer education about our products. We may not have our product exposed to a sufficient number of potential customers through our existing desktop software partners to enable us to generate a meaningful number of paying customers. In addition, the Company may not be able to enter into agreements with any additional desktop software providers. Also, see the following two risk factors.
Our efforts to upgrade users from "free alerts" to a premium identity theft protection product	A meaningful percentage of registered users who receive free alerts over the long-term will likely upgrade to a premium identity theft protection product.	Registered user may not be compelled to purchase a premium identity theft protection product from receiving "free alerts".
Sequential revenue growth beginning in the second quarter of 2013.	Our relationships with tech support companies and Benefits Brokers are new and evolving, the Company has limited experience with these entities and a	The Benefits Broker's the Company has engaged to promote its product offering to employers are not successful in convincing employers to include our product offering in their employee benefits offerings and an insufficient number of

	significant portion of the Benefits Brokers business is generated in early in each calendar year.	employees chose to purchase our products.
The belief that the Company will achieve positive operating income in the second half of 2013.	The Company will be successful in generating significant incremental revenue and/or further reducing costs in the near-term to achieve positive operating income in the second half of 2013.	Ability to generate sufficient incremental revenue (see above risk factor) and/or further reduce costs in the near-term.
Belief that the Company will be able to achieve certain financial targets in order to draw additional funds on its Credit Facility.	The Company will be successful in generating incremental revenue in the first half of 2013, in order to meet the financial targets.	Ability to generate sufficient incremental revenue (see above risk factor) and/or further reduce costs in the first half of 2013.