ID Watchdog, Inc.
Management's Discussion and Analysis
For the Second Quarter ended June 30, 2011

Introduction

The following report, originally dated August 29, 2011, is a discussion relating to the consolidated financial results and position of ID Watchdog, Inc. (the "Company") for the three and the six-month periods ended June 30, 2011. The discussion should be read in conjunction with the selected consolidated financial information shown in this report, and our unaudited interim consolidated financial statements and accompanying notes. 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 Annual Information Form, Annual Report and the audited financial statements for the year ended December 31, 2010, can be obtained from SEDAR at www.sedar.com as well as from the Company's website at www.idwatchdog.com in the Investors section. Information contained in this report is qualified by reference to the discussion concerning forward-looking statements detailed below.

Forward-looking 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. For more exhaustive information on these risks and uncertainties, please refer to our most recently filed Annual Information Form, which is available at www.sedar.com. 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. While the Company may elect to, it is under no obligation and does not undertake to update this information at any particular time, unless required by applicable securities law. In addition to presenting an analysis of results for the three and the six-month periods ended June 30, 2011 and 2010, this report also discusses certain important events that occurred between the end of the period and August 29, 2011.

Adoption of International Financial Reporting Standards ("IFRS")

The Company's interim 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 expected to be effective as of December 31, 2011, the date of the Company's first annual reporting under IFRS. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Generally Accepted Accounting Principles accepted in the United States of America ("U.S. GAAP"). Comparative information for the years ended on or before December 31, 2009, have been prepared under U.S. GAAP and has not been restated under IFRS.

Note 4 to the interim condensed consolidated financial statements contains a detailed description of the company's adoptions of IFRS, including a reconciliation of the consolidated financial statements previously prepared under U.S. GAAP to those under IFRS for the following statements:

The consolidated statements of financial position at January 1, 2010 and the December 31, 2010;
The consolidated statement of income for the for the three and six months ended June 30, 2010; and
The consolidated statement of changes in shareholder's equity (deficit) as of January 1, 2010 and December 31, 2010.

The most significant impacts of the adoption of IFRS, together with the details of the IFRS 1 exemptions taken, are described in the "Transition to IFRS" section on page 12 of this interim MD&A. The adoption of IFRS does not impact the underlying operations of the Company's business or its cash flows.

Except as otherwise noted, this MD&A is presented in United States dollars, which is the Company's functional currency. We have used the foreign exchange rate in effect at June 30, 2011, of CDN$1.00 = US$1.038.

Background and Description of Business

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

Our services, ID WatchdogSM, ID SnapShotSM and ID RehabSM are specifically designed to work together and are generally offered together through our ID Watchdog PlusSM plan for a monthly, annual or multi-year subscription fee. Our ID WatchdogSM service examines consumer databases to identify leading indicators of identity theft or manipulation. Customers are alerted upon the occurrence of events which signal that identify theft or personal identity data manipulation may be occurring. Our ID SnapShotSM service provides more detailed information about a consumer's identity data to pinpoint and scope suspected data manipulation. Once a customer's identity problem is identified, our ID RehabSM identity theft resolution service is used to assist the customer in correcting and restoring records to the state before the data manipulation occurred.

Marketing of Services

Historically, the Company has used consumer advertising and telemarketing to sell its services. Recently we have observed that market forces are beginning to promote convergence among the providers of consumer-facing security software solutions and technologies; i.e. there is an emerging initiative to provide consumers with a comprehensive desktop and mobile phone security application that incorporates device protection, identity protection, and on-line transactional security.

The cyber crime market is dominated today by PC endpoint security solutions designed to combat malware. Short for malicious software, malware, is a catch-all term to describe software designed to infiltrate a computer system without the owner's informed consent. Software is considered to be malware based on the perceived intent of the creator rather than any particular features, and includes computer viruses, worms, trojan horses, spyware, dishonest adware, crimeware, most root kits, and other unwanted software.

(Expressed in U.S. Dollars)

To capitalize on the emerging trend of comprehensive personal computer and mobile phone security solutions, the Company has developed and, in the first quarter of 2011, began to implement a strategy to partner with anti-virus companies to deliver our services as an integrated add-on to the anti-virus company's products and services (the "AV Partnering Strategy"). The targeted customer will receive, free of charge, credit-bureau alerts features, which will be delivered directly to the customer's personal computer. The Company believes the AV Partner Strategy will be a cost efficient method to market and distribute the Company's services.

As of the date of this report, the Company has negotiated partnering agreements with five anti-virus or other desktop software companies, which have their software installed on an estimated 32 million U.S. personal computers.

Results of Operations

The financial information set out below is based on and derived from our unaudited consolidated statements of operations for the three and six month periods ended June 30, 2011 and 2010.

	For the Three Months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
Revenue	$ 523,051	$ 888,815
Gross profit	404,726	798,439
Gross profit margin	77.4%	89.8%
Operating expenses		
Marketing	169,486	374,652
General and Administrative	1,097,778	587,052
Net loss and comprehensive loss applicable to ordinary shares	$ (976,222)	$ (627,251)
Basic and diluted net loss per share	$ (0.01)	$ (0.01)

	For the Six Months ended June 30,	
	2011	2010
	(unaudited)	(unaudited)
Revenue	$ 1,095,694	$ 2,078,418
Gross profit	889,442	1,843,663
Gross profit margin	81.2%	88.7%
Operating expenses:		
Marketing	307,332	1,021,819
General and Administrative	1,711,209	1,395,956
Net loss and comprehensive loss applicable to ordinary shares	$(1,464,112)	$(1,727,540)
Basic and diluted net loss per share	$ (0.01)	$ (0.03)

Revenues

Revenue decreased $365,764, or 41%, from $888,815 for the second quarter of 2010 to $523,051 for the second quarter of 2011. This decrease in revenue is primarily from a 26% decline in the average number of customers subscribing to our services during the second quarter of 2010 as compared to the second quarter of 2011.

Revenue decreased $982,724, or 47%, from $2,078,418 for the six months ended June 30, 2010 to $1,095,694 for the six months ended June 30, 2011. This decrease in revenue is primarily from a 33% decline in the average number of customers subscribing to our services during the first half of 2010 as compared to the first half quarter of 2011.

The decrease in revenues and the number of customers subscribing to our services for both the second quarter of 2011 and the six month period ended June 30, 2011, as compared to the similar periods in the prior year, is the result of a significant reduction in our marketing efforts as the Company looked to preserve cash in early 2011 and to redirect its resources to its AV Partnering Strategy to expand its customer base.

Cost of Revenue

Cost of revenue consists primarily of the following:

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

Cost of revenue for the second quarter of 2011 was $118,325, resulting in a gross profit of $404,727, while our cost of revenue for the second quarter of 2010, was $90,376, resulting in a gross profit of $798,439. Gross margin for the second quarter of 2011 was 77.4% as compared to 89.8% for the second quarter of 2010, a decrease of 12.4%. The increase in cost of revenue is primarily a result of a $43,000 increase in costs paid to our data providers, which was partially offset by a $16,000 decrease in costs for credit card processing as a result of decreased revenue. Data costs increased due to contracted data fee increases that took effect in the second quarter of 2011.

Cost of revenue for the six months ended June 30, 2011 was $206,272, resulting in a gross profit of $889,422, while our cost of revenue for the six months ended June 30, 2010, was $234,755 resulting in a gross profit of $1,843,663. Gross margin for the second quarter of 2011 was 81.2% as compared to 88.7% for the second quarter of 2010, a decrease of 7.5%. The decrease in cost of revenue is primarily a $60,000 decrease in costs for credit card processing as a result of decreased revenue, which was partially offset by a $32,000 increase in costs paid to our data providers. Data costs increased due to contracted data fee increases that took effect in the second quarter of 2011.

The Company anticipates that its gross margin will continue to decline from the level experienced in the first half of 2011 as a result of the revenue sharing structure of certain of its agreements with its new AV partners and additional contractual increases in data costs. The Company anticipates that gross margins will range from 47.5% to 52.5% in the second half of 2011.

Marketing Expense

Marketing expense consists primarily of the following:

- Call center staff wages and related expenses;
- Marketing agents' commissions;
- Advertising and production costs;
- Public relations expenses; and
- Website development and operational costs.

Marketing expense for the three months ended June 30, 2011 was $169,486 as compared to $374,652 for the similar period in 2010. Marketing expense for the six months ended June 30, 2011 was $307,332 as compared to $1,021,819 for the similar period in 2010.

The decrease in marketing expense for both the second quarter of 2011 and the six month period ended June 30, 2011, as compared to the similar periods in the prior year are primarily the result of a significant reduction in marketing and call center personnel and related costs as well as reduced sales commissions expense due to a lower number of new customers added in the second quarter of 2011 and the six month period ended June 30, 2011, as compared to the similar periods in the prior year.

The Company's growth strategy is to expand its customer base through the AV Partnering Strategy. This strategy does not utilize call center telemarketing or traditional consumer marketing, which is how the Company deployed it resources and attracted customers in the past. The Company estimates that its quarterly marketing expense in the near term will generally be consistent with the level of expenditures experienced in the second quarter of 2011.

General and Administrative Expense

General and administrative expense consists primarily of the following:

- All salaries and related benefits (excluding marketing salaries and related benefits);
- Office rent and other office related costs;
- Legal fees and other professional services including consulting; and
- Other administrative expenses.

General and administrative expense increased $510,726, or 87%, from $587,052 during the second quarter of 2010 to $1,097,778 during the second quarter of 2011. The increase reflects:

- A $265,000 increase in share based compensation expense as a result of stock options granted to officers and directors;
- A $105,000 increase in legal fees incurred to research and advise on certain securities related projects, draft various corporate agreements and to resolve two contractual disputes;
- A $35,000 increase in compensation and consulting expense for a new Chief Executive Officer who replaced Daryl Yurek, our former Chief Executive Officer, who resigned in March 2011, but continues to provide consulting services to the Company;
- The write-off to bad debt expense of a $43,000 note receivable due from Veracity Credit Consultants, LLC; and
- Payments of $32,500 to settle two contractual disputes.

General and administrative expense increased $315,253, or 23%, from $1,395,956 during the six months ended June 30, 2010 to $1,711,209 for the six months ended June 30, 2011. This increase reflects:

- A $261,000 increase in share based compensation expense as a result of stock options granted to officers and directors;
- A $124,000 increase in legal fees incurred to research and advise on certain securities related projects, draft various corporate agreements and to resolve two contractual disputes;
- A $70,000 increase in compensation and consulting expense for a new Chief Executive Officer who replaced Daryl Yurek, our former Chief Executive Officer, who resigned in February 2011, but continues to provide consulting services to the Company;
- The write-off to bad debt expense of a $43,000 note receivable due from Veracity Credit Consultants, LLC; and
- Payments of $32,500 to settle two contractual disputed that were being litigated.
- The above increases in general administrative expense were partially offset by a $60,000 decrease in information technology spending on salaries and consultants and a $143,000 decrease in investor relations and other consulting expenses.

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 of the Company and as Chairman of the Board of the Company. Subsequent to that date, the Company no longer considers transactions with Mr. Yurek or Veracity Credit Consultants, LLC ("VCC"), a company Mr. Yurek is affiliated with, as related parties. While these transactions are no longer considered related party transactions as of March 11, 2011, the Company continues to receive and pay the services described below subsequent to that date.

Following are services provided by Mr. Yurek or VCC, which were considered related party expense. The expenses disclosed below only include transactions with Mr. Yurek or VCC through and including March 11, 2011.

Marketing Expense

During 2011 and 2010, the Company was provided facilities and call center services by VCC under a month to month service agreement. The Company incurred $0 and $10,800 of call center marketing expenses during the three and six months ended on June 30, 2011, respectively, and for the three and six months ending June 30, 2010 the Company incurred $37,207 and $94,276, respectively.

General and Administrative Expense

(a) Rent and Office Equipment and Supplies

During 2011 and 2010, the Company shared office space and was allocated certain costs (based on head count) for office equipment, supplies and other office related items. This sharing arrangement is a month to month cost sharing agreement with VCC. The Company incurred $0 and $30,277 of expenses for the three and six months ended on June 30, 2011, respectively, and for the three and six months ending June 30, 2010 the Company incurred $10,104 and $10,104 respectively.

(b) Consulting Fees to Daryl Yurek

During 2011 and 2010, the Company paid consulting fees to Daryl Yurek, or entities he controlled, under a month to month consulting agreement. The Company recognized $0 and $30,276 of consulting fees for the three and six months ended on June 30, 2011, respectively, and for the three and six months ending June 30, 2010 the Company recognized $41,596 and $ 96,442 of consulting fees, respectively.

Interest expense

On February 24, 2011, the Company issued 3,123.481 shares of its Series C Preferred stock and five-year warrants to purchase 15,617,405 shares of its ordinary shares at an exercise price of $0.12 per share and received gross proceeds of $3,123,481. The Series C Preferred stock 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 Preferred C shares 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 stock is convertible, a portion of the proceeds were allocated to the conversion feature embedded in the Series C Preferred stock. The residual amount reflecting the conversion feature of $145,472, was recorded as the equity component. The Series C Preferred stock is 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.

In 2009 and 2010, the Company completed private placements for the sale of $1,703,880 in Senior Extendible Deferred Convertible Notes that bear interest at 10% per annum or at a 12.5% extended rate per annum with an extended maturity date of September 30, 2010 and a private placement for the sale of $1,500,000 in Extendible Deferred Convertible Notes that bear interest at 10% per annum or at a 12.5% extended rate per annum with an extended maturity date of February 6, 2011, respectively. The Company did not repay the 2009 Notes principal amount at the maturity on September 30, 2010 nor did it repay the principal amount of the 2010 Notes at maturity on February 6, 2011, and therefore the Company continued to incur interest expense at the default rate of 15% until the notes were retired on February 24, 2011 as part of a plan to recapitalize the Company.

Interest expense during the second quarter ended June 30, 2011 and 2010 totalled $114,864 and $465,719, respectively. Interest expense for the second quarter of 2011, includes non-cash amortization of debt offering costs and accrued dividends on the $3,123,481 of Series C Preferred stock of $9,978 and $62,298, respectively. Interest expense for the second quarter of 2010, includes non-cash amortization of debt offering costs and non-cash amortization of debt discount of $157,201 and $174,063, respectively.

Interest expense for the six months ended June 30, 2011 and 2010 totalled $337,387 and $1,156,722, respectively. Interest expense for the six months ended June 30, 2011, includes cash interest expense on the Company's 10% Extendible Deferred Convertible Notes that were repaid in February 2011, non-cash amortization of debt offering costs, amortization of debt discount and accrued dividends on the $3,123,481 of Series C Preferred stock of $14,678, $50,820 and $86,259, respectively. Interest expense for the six months ended June 30, 2010, includes cash interest expense on the Company's 10% Extendible Deferred Convertible Notes that were repaid in February 2011, non-cash amortization of debt offering costs and non-cash amortization of debt discount of $421,133 and $546,542, respectively.

(Expressed in U.S. Dollars)

Summary of Quarter Results

	June 30, 2011	**March 31, 2011**	**December 31, 2010**	**September 30, 2010**
	(IFRS *) (unaudited)	(IFRS *) (unaudited)	(IFRS *) (unaudited)	(IFRS *) (unaudited)
Revenue	$ 523,051	$ 572,643	$ 552,794	$ 698,230
Net loss	$ (976,222)	$ (487,891)	$ (1,107,603)	$ (365,759)
Net loss applicable to ordinary shares	$ (976,222)	$ (487,891)	$ (1,107,603)	$ (365,759)
Basic and diluted net loss per share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.00)

	June 30, 2010	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**
	(IFRS *) unaudited)	(IFRS *) (unaudited)	(US GAAP **) (unaudited)	(US GAAP **) (unaudited)
Revenue	$ 888,815	$ 1,189,602	$ 1,340,975	$1,422,746
Net loss	$ (568,251)	$(1,100,289)	$ (1,828,025)	$(1,271,082)
Net loss applicable to ordinary shares	$ (568,251)	$(1,100,289)	$ (1,828,025)	$(1,271,082)
Basic and diluted net loss per share	$ (0.01)	$ (0.00)	$ (0.03)	$ (0.03)

* Prepared in accordance with IFRS
** Prepared in accordance with U. S. GAAP

For 2010 and 2011 the quarterly results are reported in accordance with IFRS. The quarterly results for 2009 are reported in accordance with U.S. GAAP.

Net loss increased $557,000 during the fourth quarter of 2009 as compared to the third quarter of 2009 mainly due to $430,000 of additional interest expense incurred during the fourth quarter of 2009 which relates to the sale of $1.7 million of senior extendible deferred convertible notes.

Net loss decreased during the first quarter 2010 as compared to the fourth quarter 2009 as a result of the Company's efforts to reduce expenditures in order to conserve cash. Marketing expenses and general and administrative expenses were reduced by $475,000 and $281,000, respectively as compared to the fourth quarter of 2009.

Net loss increased by $384,000 during the second quarter 2010 as compared to the first quarter 2010 due to a decrease in revenue and gross margin.

Net loss decreased by $261,000 during the third quarter 2010 as compared to the second quarter 2010 as a result of the Company's efforts to reduce expenditures. Marketing expenses and general and administrative expenses were reduced by $184,000 as compared to the second quarter of 2010.

Net loss increased by $741,000 during the fourth quarter 2010 as compared to the third quarter 2010 primarily as a result of increased interest expense due to accounting for a 20% premium payment and increased interest payments to the holders of the Company's notes. Net loss also increased as a result of our declining revenue and related gross profits due to our declining customer base.

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 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 Stock at a price of $1,000 per unit, with each unit consisting of one (1) shares of no par value Series C Convertible Preferred Stock (the "Series C Preferred") and 5,000 warrants to purchase Ordinary Shares (the "2011 Warrants") (each one share of Series C Preferred and 5,000 warrants a "Unit" and collectively the "Units"). The gross proceeds from the sale of the Units was $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. Each 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 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. The 2011 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 per Ordinary Share. The issuance of 30,288,769 Ordinary Shares, for repayment of $2,932,780 face amount of outstanding convertible notes. The remaining outstanding notes totaling $271,100 were paid in cash. The convertible notes consisted of $1,703 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 and 2010 Notes had been repaid.

(Expressed in U.S. Dollars)

- 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.

Liquidity

As of June 30, 2011, cash and cash equivalents totalled $782,762 compared to $99,092 as of December 31, 2010.

During the six months ended June 30, 2011 and 2010, we had cash outflows from operations of $1,623,608 and $1,280,896, respectively. The increase in cash used in operating activities, when comparing the two periods, was primarily a result of an increase in operating loss of $198,979 and a decrease in working capital of $143,734.

Cash flows used for investing activities increased to $35,775 for the six months ended June 30, 2011 from $27,057 for the six months ended June 30, 2010 as a result of modest increase in capital expenditures.

Cash flows from financing activities totalled $2,343,063 and $1,250,650, respectively for the six months periods ended June 30, 2011 and 2010, respectively, and are as follows:

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Proceeds from issuance of Series C Preferred Stock and warrants issued, net of issuance costs ..	$ 2,816,897	$ —
Proceeds from issuance of 10% senior extendible deferred convertible notes and warrants, net (the 2010 Notes)	—	1,268,920
Repayment of Debt	(271,100)	—
Issuance costs related to conversion of debt and trade payables into ordinary shares	(267,799)	—
Change in restricted cash	61,057	(16,594)
Borrowing, capital lease obligation	6,000	—
Repayment of capital lease obligations	(1,992)	(1,696)
Net cash provided by financing activities................	$ 2,343,063	$ 1,250,650

Commitments

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 combined with an existing data services agreement with the same provider. The agreement requires the Company to pay the greater of actual data fees incurred or a fixed fee 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 minimum lease payments for 2011, 2012, 2013 and 2014 are $16,934, $102,020, $104,518 and $88,840, respectively. The minimum lease payments are subject to changes based on final tenant improvements, which are to be included in the lease payments, and contracted payment adjustments to accommodate additional employees in the office space.

In August 2011, the Company agreed to pay $51,000, net of penalties which the Company is protesting, to the City and County of Denver as a result of a sales and use tax audit. The $51,000 is reflected in accrued liabilities in the Company financial statements as of June 30, 2011.

Capital Resources

The Company is in the early stages of executing its AV Partnering Strategy. As of the date of this report, the Company has negotiated partnering agreements with five anti-virus or other desktop software companies, which have their software installed on an estimated 32 million U.S. personal computers, and is in negotiations with numerous other anti-virus and desktop software companies to integrate and distribution our products. The Company's first anti-virus partner made our products available to its U.S. user base in late June 2011 with the second anti-virus partner launching in July 2011. The Company estimated that is will require several quarters of working closely with each anti-virus partner in order to fully integrate our products, with their products and to optimize registration and customer sign-up rates. The Company believes it will be successful in generating a significant increase in new customers and revenues through its AV Partnering Strategy and its currently projecting to achieve positive operating income in mid 2012. However, should the Company fail to achieve its projected sales and/or operating profit margins, or experience significant delays in the roll out of its new marketing strategy, it will require additional time and resources to achieve positive operating income.

In order to ensure that the Company has adequate liquidity in order to execute its AV Partnering Strategy and to fund its operating losses and working capital needs until mid 2012 when the Company projects that it will reach positive operating income, the Company will either seek to obtain additional equity or debt capital prior to the end of 2011 or make adjustments to its cost structure. However, there can be no assurance that the Company will be successful in obtaining additional financing on favorable terms, if at all, or be successful in reducing its cost structure sufficiently to position it to generate positive operating income.

Outstanding Share Data

We are authorized to issue up to 450,000,000 Ordinary Shares and up to 450,000,000 preferred shares. As of August 29, 2011, we have the following equity securities outstanding:

<u>Ordinary Shares</u>

- 101,348,330 Ordinary Shares outstanding;
- 51,113,327 warrants, each of which is exercisable for one Ordinary Share at prices ranging from $0.10 to $0.48;
- 10,635,000 stock options, each of which is exercisable for one ordinary share at prices ranging from $0.27 to $0.60 per share; and
- 985,000 stock options, each of which is exercisable for one ordinary share at CDN$0.60 per share.

The warrants outstanding 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.

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.

<u>Series C Preferred Stock</u>

The Company has outstanding 3,123.481 shares of its Series C Preferred stock. The holders of the Series C Preferred stock have the right to convert each share of their Series C Preferred stock into 10,000 Ordinary Shares of the Company, or 31,234,810 Ordinary Shares. The Company has reserved 31,234,810 of its Ordinary Shares to effect the conversion of Series C Preferred shares. The Series C Preferred stock is considered to be mandatory redeemable shares and is classified as a liability on the Company's consolidated statement of financial position.

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

Off-balance Sheet Arrangements

Other than the office lease commitment described in Note 11 of the Company's June 30, 2011 unaudited consolidated financial statements and under the "Commitments " section above, the Company did not have any off-balance sheet arrangements as of June 30, 2011 or as of December 31, 2010.

Transactions with Related Parties

See Related Party Expense in the Results of Operations section of this report and in Note 7 of the Company's June 30, 2011 unaudited consolidated interim condensed financial statements for a description of transactions with related parties.

Contingencies

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

Transition to IFRS

In conjunction with the Company's annual audited consolidated financial statements to be issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2011, the Company's condensed interim consolidated financial statements present Company's initial financial results of operations and financial position for the three and six months ended June 30, 2011, including the 2010 comparative periods. The financial statements have been prepared in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards" and with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". The condensed interim consolidated financial statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Company prepared its interim and annual consolidated financial statement in accordance with United States generally accepted accounting principles ("U.S. GAAP").

The preparation of the condensed interim 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 of its unaudited consolidated interim condensed financial statements for the periods ended June 30, 2011, 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 three and six months ended June 30, 2010, and statements of shareholders' equity (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 of its unaudited consolidated interim condensed financial statements for the periods ended June 30, 2011. 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 of its unaudited consolidated interim condensed financial statements for the periods ended June 30, 2011.

The condensed interim consolidated financial statements should be read in conjunction with the Company's U. S. GAAP annual audited consolidated financial statements for the year ended December 31, 2010.

Recently Adopted 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 balance sheet entities;

- IFRS 13, Fair Value Measurement, defines fair value, requires disclosure about fair value measurements and provide a framework for measuring fair value when it is required, or;

- 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.

Financial Instruments and Other Instruments

On February 24, 2011, the Company issued 3,123.481 shares of its Series C Preferred stock and five-year warrants to purchase 15,617,405 shares of its ordinary shares at an exercise price of $0.12 per share and received gross proceeds of $3,123,481. The Series C Preferred stock 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 Preferred C shares 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 stock is convertible, a portion of the proceeds were allocated to the conversion feature embedded in the Series C Preferred stock. The residual amount reflecting the conversion feature of $145,472, was recorded as the equity component. The Series C Preferred stock is 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 Statements

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

- Uncertainties related to and our limited operating history;
- Uncertainties associated with sufficient operating income and future losses;
- Uncertainties associated with marketing studies and strategies;
- Uncertainties associated with market acceptance of our services;
- Uncertainties associated with market competition;
- Uncertainties over future products we envisage from our Acxiom relationship may never achieve market acceptance;
- Risks related to operating in consumer information services regulated by federal and state laws of consumer data and consumer advertising;
- Risks related to a responsibility to secure active and former customer data from any potential data breach and any costs to compensate the customer for such breach;
- Uncertainties associated with general economic conditions;
- Uncertainties related to our dependence upon outside suppliers to provide us databases which enable us to provide our services to customers;
- Reliance upon merchant banks to process credit card payments;
- Risks related to credit card payment processing rules and restrictions relating to excessive chargebacks;
- Uncertainties pertaining to our ability to protect our intellectual property including service marks, trademarks and patents;
- Uncertainties relating to claims from others that our intellectual property has infringed on the proprietary right of others;

- Changes in laws that allow consumers to access personal information records and give consumers the right to request correction of inaccurate records;
- Interpretations of insurance and credit services regulations that would cause our services to be subject to such regulations;
- Uncertainties related to obtaining additional funding;
- Uncertainties related to fluctuations in Canadian and US dollar exchange rates;
- Uncertainties related to adequacy or effectiveness of internal controls;
- Reliance on key personnel; and
- Uncertainties related to legal proceedings.

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