# ID Watchdog, Inc.
# Management's Discussion and Analysis
# For the year ended December 31, 2011

## 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, 2011 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 "About Us" 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. 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 two years ended December 31, 2011 and 2010, this report also discusses certain important events that occurred between the end of the period and April 26, 2012.

## Adoption of 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, 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 audited 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 December 31, 2010;
- The consolidated statement of income for the year ended December 31, 2010; and
- The consolidated statement of changes in shareholder's 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 17 of this 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.

## 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 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 six categories of service offerings, which are designed to work together to provide solutions for detection and resolution of identity theft and other consumer report problems:

- **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 will provide will provide applicants up to $1000 and requiring only an address and proof of employment.

- **Credit Reports and Credit Scores:** Will 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 client'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

Historically, the Company has used consumer advertising, telemarketing and on-line affiliate marketing programs to sell its services. While these marketing tactics generated significant new customer growth, the per customer cost of these efforts was relatively high and a significant number of these customers cancelled their subscriptions shortly after their trial subscription periods ended. In order to grow our customer base, reduce our customer acquisition costs and improve our customer retention rates, the Company explored a number of solutions and identified a movement among certain software service providers toward providing consumers with a comprehensive desktop and mobile phone security application suite that incorporates device protection, identity protection, and on-line transactional security.

To capitalize on the emerging trend of comprehensive personal computer and mobile phone security solutions to increase our customer base, while at the same time seeking to reduce our customer acquisition costs, the Company has partnered with certain anti-virus and other desk-top software providers to provide its identity theft protection services as a complimentary add-on product offering for the partners' end-users through their desktops (the "Desktop Partnering Strategy"). The Company is offering "free alerts", which are comprised of personal alerts based upon changes to a unique person's credit report, as well as generic informational alerts. These "free alerts" 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 implement the Desktop 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 34 million U.S. personal computers. The Company has integrated its services with three of these partners and the partners began to make our services available to their U.S. customers in July August and October of 2011. The Company anticipates that the two partners who have yet to launch our service will begin to do so late in the second quarter or early in the third quarter of 2012.

As a compliment to the Desktop Partnering Strategy and to generate additional sales of our identity theft protection services, the Company has begun to establish distribution relationships with companies that provide personal computer performance enhancement services.

Also, a significant portion of our existing customers were acquired through relationships with companies that focus on designing and negotiating customized employee benefit programs for their clients. We are seeking to expand this sales channel by increasing the number of these relationships and to increase our customer base by marketing our identity theft protection services through those employee benefits companies.

(Expressed in U.S. Dollars)

## 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, 2011, 2010 and 2009.

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2011** | **2010** | **2009** |
| | | (Restated *) | (U.S.GAAP **) |
| Revenue | $ 2,020,063 | $ 3,329,442 | $ 5,907,602 |
| Cost of services | 659,537 | 395,832 | 1,366,101 |
| Gross profit | 1,360,526 | 2,933,610 | 4,541,501 |
| Operating expense | 3,727,969 | 4,010,769 | (12,270,158) |
| Operating loss | (2,367,443) | (1,077,159) | (7,728,657) |
| Net loss and comprehensive loss applicable to ordinary shares | (2,613,541) | (2,146,402) | (8,768,122) |
| Net loss and comprehensive loss applicable to ordinary shares | $(2,613,541) | $(2,146,402) | $ (8,768,122) |
| Basic and diluted net loss per share | $ (0.03) | $ (0.03) | $ (0.15) |

| | **December 31, 2011** | **December 31, 2010** | **December 31, 2009** |
|---|---|---|---|
| | | (Restated *) | (U.S.GAAP **) |
| **Balance Sheet Data:** | | | |
| Cash and cash equivalents and available-for-sale securities (including restricted cash of $0, $61,057 and $171,752 at December 31, 2011, 2010 and 2009, respectively | $ 1,589,688 | $ 160,139 | $ 660,441 |
| Total assets | $ 1,990,838 | $ 572,411 | $ 1,511,564 |
| Total long-term liabilities | $ 2,979,360 | $ 2,476 | $ 5,406 |
| Total liabilities | $ 3,675,199 | $ 5,867,711 | $ 4,711,632 |
| Total shareholders' deficit | $ (1,684,361) | $ (5,295,300) | $ (3,200,068) |

*Restated from U.S. GAAP to IFRS-See Note 4 to Audited Financial Statements.
**Prepared in accordance with U.S. GAAP.

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

## Summary of Quarterly Results

| | 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 and diluted net income (loss) per share | $ 0.00 | $ 0.01 | $ (0.03) | $ (0.01) |

| | December 31, 2010 | September 30, 2010 | June 30, 2010 | March 31, 2010 |
|---|---|---|---|---|
| Revenue | $ 552,795 | $ 698,230 | $ 888,815 | $ 1,189,602 |
| Net loss | $(1,107,603) | $ (227,760) | $ (568,251) | $ (242,788) |
| Net loss applicable to ordinary shares | $(1,107,603) | $ (227,760) | $ (568,251) | $ (242,788) |
| Basic and diluted net loss per share | $ (0.02) | $ (0.00) | $ (0.01) | $ (0.00) |

## Results of Operations

**Comparison of the year ended December 31, 2011 to the year ended December 31, 2010.**

### Revenues

Revenue decreased $1,309,379, or 39.3%, from $3,329,442 for the year ended December 31, 2010 to $2,020,063 for the year ended December 31, 2011. This decrease in revenue is primarily the result of a 23% decline in the average number of customers subscribing to our services during 2011 as compared to the average customers subscribing during 2010. Also, contributing to the decrease in revenues was a decrease in the average rate paid by our customers. When many of our multi-year subscription agreements 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 2011 as compared to the prior year.

Further, the decrease in the average number of customers subscribing to our services for the year ended December 31, 2011 as compared to the prior year, is the result of a significant reduction in our marketing efforts as the Company looked to preserve its cash in early 2011 in advance of its financial restructuring and as it redirected it's marketing and distribution efforts toward it Desktop 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 year ended December 31, 2011 was $659,537, resulting in a gross profit of $1,360,526, while our cost of revenue for the year ended December 31, 2010, was $395,832 resulting in a gross profit of $2,933,610. The gross margin for 2011 was 67.4% as compared to 88.1% for 2010, a decrease in gross margin of 21.7%. The increase in cost of revenue is primarily due to a $329,125 increase in data service expense and a $36,915 one-time expense resulting from the write-down in the value of software licenses, which were partially offset by an $85,194 decrease in costs for credit card processing due of a decrease credit card revenue. Data service expenses increased significantly due to a data service contract modification that took effect in July 2011.

## 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 $164,734, or 7.0%, from $2,350,177 for the year ended December 31, 2010 to $2,185,443 for the year ended December 31, 2011. This decrease reflects:

- A $302,142 net decrease in consulting expense due to a $137,827 decrease in financial advisory services, a $80,488 decrease in consulting fees paid to Mr. Yurek (the former CEO) and a $62,693 decrease in information technology consulting fees;
- A $74,266 decrease in salaries and benefits as a result of a decrease in personnel employed by the Company; and
- A $39,841 decrease in travel and entertainment expense.

  These above decreases in general and administrative expenses were partially offset by the following increases in general and administrative expenses:

- A $154,752 increase in legal fees incurred to research and advise on certain securities related issues and to defend and settle several lawsuits filed against the Company in 2010 and 2011; and
- An increase in bad debt expense of $52,228, which was the result of the reserve recognized against the $45,756 note receivable due from Veracity Credit Consultants, LLC and $6,472 reserve for uncollectable accounts receivable.

## 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
- Other marketing costs.

Marketing expense decreased $762,453, or 56.1%, from $1,359,505 for the year ended December 31, 2010 to $597,052 for the year ended December 31, 2011. This decrease is primarily the result of a significant reduction in call center personnel and related expenses, marketing expenses and reduced sales commissions expense due to a lower number of new customers added during the year ended December 31, 2011 as compared to the prior year.

The Company's strategy is to expand its customer base through its Desktop Partnering Strategy and by expanding it's relationships with companies that design and negotiate employee benefit programs who will then market our identity theft protection services directly to their clients. These strategies don't utilize call center telemarketing or traditional consumer marketing, which is how the Company attracted new customers in 2010.

## Stock-based Compensation

For the year ended December 31, 2011, stock-based compensation increased by $723,383 from $51,170 for the year ended December 31, 2010 to $774,553, for the year ended December 31, 2011. This increase is the result of the stock option grants, primarily to officers and directors, to purchase 8,110,000 Ordinary Shares, which were granted in June 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 and for the year ended December 31, 2010.

### a) Marketing Expenses

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

### (b) Office Rent, Equipment and Supplies

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

### (c) Consulting Fees to Daryl Yurek

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

### (d) Note Receivable

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

### Interest Expense

On February 24, 2011, the Company sold 3,123.481 shares of its Series C Preferred as a part of a units offering, at a price of $1,000 per unit, with each unit consisting of one (1) Series C Convertible Preferred share of no par value and 5,000 warrants to purchase Ordinary Shares. The gross proceeds from the sale of the units were $3,123,481. The warrants have a five-year term with an exercise price of $0.12. 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 is $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 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 shares. Further, as the

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

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

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

## Gain (Loss) on Warrant Liabilities

Certain of our warrants that contain anti-dilution provisions, which if triggered, would result in a reduction of the exercise price of the warrants. We have recorded these warrants at fair value as a warrant liability. 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 year ended December 31, 2011, we recognized a non-cash gain of $450,625 as compared to a non-cash gain of $1,054,501 during the year ended December 31, 2010, related to the change in fair value of these warrants.

## Comparison of the quarter ended December 31, 2011 to the quarter ended December 31, 2010.

### Revenues

Revenue decreased $75,243, or 13.6%, from $552,795 for the fourth quarter of 2010 to $477,552 for the fourth quarter of 2011. This decrease in revenue is primarily the result of a 9% decline in the average number of customers subscribing to our services during the fourth quarter of 2010 as compared to the average customers during the fourth quarter of 2011.

While the Company has focused on growing its customer base through its Desktop Partnering Strategy, the strategy has not yet generated a sufficient number of new customers to offset the customer losses from its existing customer base.

Cost of revenue for the fourth quarter of 2011 was $209,885, resulting in a gross profit of $267,667, while our cost of revenue for the fourth quarter of 2010, was $92,325, resulting in a gross profit of $460,470. The gross margin for the fourth quarter of 2011 was 56.1% as compared to a gross margin of 83.3% for the fourth quarter of 2010, a decrease in gross margin of 27.2%. The increase in cost of revenue is primarily a result of a $148,534 increase in data service expenses, which were partially offset by a decrease in credit card processing and other service expenses.

### General and Administrative Expense

General and administrative expense decreased $249,639, or 41.9%, from $596,165 for the fourth quarter of 2010 to $346,526 for the fourth quarter of 2011. The decrease includes:

- A $82,314 decrease in consulting expenses
- A $71,063 decrease in professional service expenses including decreased legal and accounting fees; and
- A $69,872 decrease in travel expenses.

### Marketing Expense

Marketing expense for the three months ended December 31, 2011 was $142,225 as compared to $146,158 for the similar period in 2010. .

### Stock-based Compensation

Stock-based compensation increased $192,486 from $11,514 during the three months ended December 31, 2010 to $204,000 for the three months ended December 31, 2011. This increases is the result of the stock option grants made in June 2011, primarily to officers and directors, to purchase 8,110,000 Ordinary Shares.

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

### Interest Expense

| | Three Months Ended December 31, 2011 | Three Months Ended December 31, 2010 |
|---|---|---|
| Accrued dividends on Series C Preferred ................. | $ 62,984 | $ — |
| Amortization of fair value of Series C Preferred detachable warrants and offering costs, net ........... | 20,308 | — |
| Interest expense on capitalized leases and debt, net ........................................................................ | 4,241 | 754,264 |
| | $ 87,533 | $754,264 |

Interest expense for the fourth quarter ended December 31, 2010, includes $640,667 and $113,597 of interest premium and recurring interest on the Company's 10% extendible deferred convertible notes, respectively. These notes were repaid in February 2011.

### Gain (Loss) on Warrant Liabilities

Certain of our warrants that contain anti-dilution provisions, which if triggered, would result in a reduction of the exercise price of the warrants. We have recorded these warrants at fair value as a warrant liability. 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. For the quarter ended December 31, 2011, we recognized a non-cash gain of $636,000 as compared to a non-cash gain of $0 during the similar period in the prior year. The non-cash gain recognized in the fourth quarter of 2011 was primarily the result of a decrease in the fair value of warrants issued as a part of the Series C Preferred offering.

### 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 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 per Ordinary Share.

- The issuance of 30,288,769 Ordinary Shares, for repayment of $2,932,780 face amount of outstanding convertible notes. The convertible notes consisted of $1,703,000 of notes issued in October and November of 2009 maturing in September 2010 (the "2009 Notes") and $1,500,000 of convertible notes (the "2010 Notes") outstanding with an extended maturity to February 2011. During the first quarter of 2011, a consent offer was made to the holders of the 2009 Notes and the 2010 Notes to exchange their notes for cash and Ordinary Shares. For each $1,000 original face amount of 2009 Note and the 2010 Notes, the holders received $200 in cash and that number of shares of our Ordinary Shares which is equal to the sum of $1,000 plus applicable accrued interest thereon as of the closing of the offer, divided by $0.10. Holders of $271,100 face amount of the 2009 Notes and the 2010 Notes chose not to participate in the exchange and were repaid in cash. As of February 24, 2011, all of the 2009 and 2010 Notes had been repaid.

- The Company repaid $814,345 of certain trade payables through the issuance of 8,143,450 Ordinary Shares (the "Vendor Ordinary Shares") at an issuance price of $0.10 per Ordinary Share.

- The Company paid the placement agent and other financial advisors $412,186 and issued 4,373,481 of warrants exercisable into one Ordinary Share in the capital of the Company at a price of $.12 per warrant. The warrants can be exercised at any time before February 24, 2016. In addition, the Company incurred $118,020 of inducement fees and expenses to assist with the convertibles notes and trade payables exchanges described above.

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

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

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

## Liquidity

As of December 31, 2011, cash and cash equivalents and available for sale securities totalled $1,589,688 compared to $99,092 as of December 31, 2010.

For the years ended December 31, 2011 and 2010, we had cash outflows from operations of $2,465,735 and $1,689,589, respectively. The increase in cash used in operating activities, when comparing the two periods, was primarily a result of a in working capital of $909,782.

Cash flows used in investing activities increased to $727,499 for the year ended December 31, 2011 from cash flows provided by investing activities of $33,922 for the year ended December 31, 2010 primarily as a result of an increase in the purchase of available for sale securities.

Cash flows from financing activities totalled $3,948,840 and $1,265,990, respectively for the years ended December 31, 2011 and 2010, respectively, and are as follows:

| | Years Ended December 31, | |
|---|---|---|
| | **2011** | **2010** |
| Proceeds from issuance of Series C Preferred Stock and warrants issued, net of issuance costs .. | $ 2,689,577 | $ — |
| 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 ...................... | (271,601) | — |
| Proceed from Units Offering.................................. | 2,000,000 | — |
| Issuance costs related to Units Offering................ | (191,354) | — |
| Repayment of capital lease obligations ................ | (6,682) | (2,930) |
| Net cash provided by financing activities............... | $ 3,948,840 | $ 1,265,990 |

## 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 supplement 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 $50,000 per month fixed fee.

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

In July 2011, the Company entered into a five year agreement to lease telecommunications equipment. The monthly lease payments are $1,556 and the agreement includes a bargain purchase option at the end of the lease term. The minimum lease payments are $18,891 per year for the years 2012 through 2015 and $15,726 for year 2016.

## Capital Resources

The Company is in the early stages of executing its Desktop Partnering Strategy. In early 2011, the Company began to implement the Desktop 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 34 million U.S. personal computers. The Company has integrated its services with three of these partners and the partners began to make our services available to their U.S. customers in July, August and October of 2011. The Company anticipates that the two partners who have yet to launch our service will begin to do so late in the second quarter or early in the third quarter of 2012.

The Company estimates that it will require several quarters in working closely with each desktop software partner to effectively integrate our service offerings with their software products before we begin to generate significant customer registrations and ultimately new paying customers. The Company believes that over the long-term it will be successful in generating a significant number of additional customers and significant additional revenues through its Desktop Partnering Strategy. However, the Company has experienced lengthy delays in the launch of its services and extended lead times to deploy integration changes and optimization tactics. The Company is currently projecting that it will achieve positive operating income in late 2012 or early 2013. However, should the Company fail to achieve its projected sales and/or operating profit margins, or experience significant additional delays in the roll out of its Desktop Partnering Strategy, the date which it is currently projecting to achieve positive operating income will likely be extended and the Company may require additional capital resources to fund its operating deficits until such time that it achieves 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 April 26, 2012, we have the following equity securities outstanding:

<u>Ordinary Shares</u>

- 118,334,997 Ordinary Shares outstanding;
- 72,588,292 warrants, each of which is exercisable for one Ordinary Share at prices ranging from $0.10 to $0.48;
- 9,990,000 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 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.

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. The holders of the Series C Preferred have the right to convert each share of their Series C Preferred into 10,000 Ordinary Shares of the Company, or 31,234,810 Ordinary Shares. The Company has reserved 31,234,810 of its Ordinary Shares to effect the conversion of Series C Preferred. The Series C Preferred is considered to be mandatory redeemable shares and is classified as a liability on the Company's consolidated statement of financial position as of December 31, 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, 2011 audited consolidated financial statements and under the "Commitments " section above, the Company did not have any off-balance sheet arrangements as of December 31, 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 6 of the Company's December 31, 2011 audited consolidated financial statements for a description of transactions with related parties.

## Contingencies

The Company is involved in various claims in the ordinary course of its 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

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

The preparation of the annual audited consolidated financial statements resulted in selected changes to the Company's accounting policies as compared to those disclosed in the Company's annual audited consolidated financial statements for the period ended December 31, 2010 issued under U.S. GAAP.

A summary of significant changes to the Company's accounting policies is disclosed in Note 4 along with reconciliations presenting the impact of the transition to IFRS for the comparative periods including the following statements: statements of financial position as of January 1 and December 31, 2010, statements of operations and cash flows for the year ended December 31, 2010, and statements of shareholders' deficit as of January 1 and December 31, 2010.

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

## 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 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 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 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 our ability to generate operating and net income;
- Uncertainties associated with our marketing and distribution strategies;
- Uncertainties associated with our ability to execute our Desktop Partnering Strategy;
- Uncertainties associated with market demand and acceptance of our services;
- Uncertainties associated with market competition;
- Uncertainties related to our ability to obtain additional funding on reasonable terms, if at all;
- Risks related to the loss of key data suppliers who provide us databases which enable us to provide our services to customers;
- Reliance on key personnel;
- Uncertainties associated with our ability to replace the customers we lose in the ordinary course of business;
- 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;
- Risks related to system failures or interruptions in our telecommunications or information technology infrastructure;
- Uncertainties associated with continued weakness in U.S. economy;
- 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;
- Uncertainties related to claims by security holders that we haven't complied with certain intentions;

- Interpretations of insurance and credit services regulations that would cause our services to be subject to such regulations; and
- Uncertainties related to adequacy or effectiveness of internal controls.

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.