

Nio Security, Inc.

Q3 2010 Interim Report



Oslo, 26 November, 2010

HIGHLIGHTS

- Positive performance development continued also in third quarter
- Strong basis for future growth; several key contracts secured in and after quarter (G4S, Infratek)
- Production ramped up and fully scalable to secure future growth

OPERATIONAL PERFORMANCE

Nio Security remains on track towards building revenue and provide positive earnings through new major contracts. New financing and a new multi channel distribution strategy enable the Company to secure a reliable production of Nio's sophisticated video surveillance solutions and expand its market footprint while limiting distribution costs and inventory.

In the third quarter of 2010, Nio continued its efforts to involve with large security providers and potential OEM partners in addition to traditional distribution networks. Nio's objective is to fast track the Company's access to the global market for sophisticated video surveillance, a market which enjoys a more than 25 per cent annual growth rate.

Nio has during and after the third quarter entered into dealership agreements with some of the world's leading security providers such as G4S and Infratek. In September Nio announced that the Danish Secure Vision Group will become a distributor for Nio's in Denmark and parts of Sweden.

The dealership agreement with G4S Secure Solutions covers the Norwegian market and represents an estimated sales volume of USD 2 million in 2011. G4S has tested Nio's products under various and extreme conditions before deciding to move forward with a partnership. G4S will on the basis of the cooperation market Nio's products in the Norwegian security market, and has already included the first units in planned deliveries to multiple installations with major end users in Norway. G4S offers security solutions in more than 110 markets worldwide and Nio will on the basis of the cooperation now established, pursue further international business opportunities.

As a consequence of these agreements and general market growth, Nio has invested further in its production through its production partner BMK in Augsburg. The Company estimates deliveries and payments for its contracts in first and second quarter of 2011.

The Scandinavian and European markets for security and video surveillance are growing rapidly, and the distributor and dealership agreements are important milestones in developing Nio as a main provider of sophisticated video surveillance equipment in Europe.

The current order backlog and the recent distributor agreement represent a combined expected sales volume of USD 6 million appearing in 2011 and 2012. The Company's total sales in 2009 was USD 0.6 million.

Nio's marketing strategy is to partner with major security services vendors who serve attractive end user categories such as petrol station chain, car dealer chains, embassies, hotels, ports and industrial areas. The need for multi object tracking increases with the increased number of reference cameras being used. These cameras will never be able to give close view in order to identify cars or people. A guard will never be able to jump quick enough between different objects. Nio's CloseView® never rest, never sleep, never eat – CloseView® always watch.

The Board of Directors believes that the initiatives taken and the positive sales development will improve the Company's operating performance and strengthen the Company's attractiveness to investors. The Company will continuously investigate new opportunities to increase shareholder value in addition to organic growth.

FINANCIALS

Sales for the third quarter of 2010 were US\$ 410,533, an increase of 119 per cent from US\$ 187,881 for the third quarter of 2009 and 138 per cent from US\$ 172,653 for the second quarter of 2010. The gross margin for the third quarter of 2010 was 53 per cent, compared to 36 per cent for the third quarter of 2009. North America remains the primary market for Nio products, representing 57 per cent of revenues in 2010.

Operating expenses for the third quarter of 2010 were US\$ 577,325 compared to US\$ 660,767 in the third quarter of 2009. Including an interest expense of USD 31,249, loss from operations was US\$ 390,451 for the third quarter of 2010, an improvement from a US\$ 727,583 loss for the same period in 2009 and a US\$ 542,769 loss for the second quarter of 2010.

During 2010, Nio has entered into short term loan agreements aggregating a balance of NOK 6.25 million per September 30, 2010, mainly with major shareholders. Subsequent to the third quarter of 2010, the short term loans have been restructured, including a NOK 3 million increase and extension of final payment until March 2012.

In the first nine months of 2010, Nio has ramped up production to meet a growing order flow, and in September 2010, the production is running satisfactory with volumes to meet our customers demand. Nio is monitoring its production process closely, ensuring that the risks related to a number of subcontractors with a significant product lead time are manageable. As a result, the Company's US\$ 767,578 inventory per September 30, 2010 mainly consists of parts and components for future production, and the Company has secured sufficient capacity to meet deliveries from existing customers and planned growth.

Nio's financial statements include the wholly owned subsidiary Tempest Microsystems Inc. The financial statements are prepared in conformity with US Generally Accepted Accounting Principles (US-GAAP) and on the going concern assumption. As a US registered company reporting in US-GAAP, Nio Security is not required to report in conformity with IFRS. The Company has, however, assessed the possible differences for its financial reporting between US-GAAP and IFRS and to the Company's knowledge, there would not be any significant changes to the financial statements under IFRS.

During the first quarter of 2010, the Company discontinued the Tempest DVR product line and closed down the San Diego operations, and is now in the process of dissolving its subsidiary Tempest Microsystems. It is expected that Tempest will be dissolved before year end 2010.

SHAREHOLDER MATTERS

There were no changes to the number of outstanding shares during the third quarter of 2010. The Company has 100,000,000 authorized shares, whereof 39,478,041 were outstanding per September 30, 2010. In addition, 19,634 options and 31,800,000 warrants were outstanding at September 30, 2010, whereof 16,800,000 with a subscription price at NOK 2.50 and 15,000,000 at NOK 5.00. As of today, primary insiders hold warrants as follows: Lars Moldestad: 13,695,614; close associate of Jon Skabo: 17,204,386; Espen Brodin and close associates: 2,100,000; close associate of Bjarne Støtvig jr.: 2,100,000; and Tore Formo: 2,100,000. In addition, others hold 1,600,000 warrants.

ABOUT NIO SECURITY

Nio Security, Inc. helps protect life and property through the development and sales of sophisticated video surveillance solutions. The Company's technology is unrivalled and the main products, the CloseView dynamic multi object surveillance system and the SteadyEye sophisticated video stabilizing system, are considered the most advanced video surveillance systems available.

Nio's software and hardware have been developed over years based on proprietary technology, and during 2010 the products have been accepted and proven by many of the worlds leading players within the security market. Nio has during the last year successfully implemented its strategy to change focus from engineering to sales, resulting in an increasing order flow in 2010.

Within the security market, Nio offers intelligent video appliances and smart cameras, separately or combined for end-to-end solutions. All products are suitable both for new installations and for the retrofit market. The business is highly scalable, the needs for surveillance are global and the technology can easily be adapted to large or small installations.

26 November, 2010

The Board of Directors of Nio Security, Inc.

Espen Brodin
Chairman & CEO

Bjarne Støtvig
Executive Director

Jon Skabo
Director

Lars Moldestad
Director

Consolidated statements of operations (USD)

	July - September 2010		January - September 2009		2009
Sales	410 533	187 881	677 060	729 539	899 171
Cost of sales	192 410	120 929	313 953	461 727	607 406
Gross Profit	218 123	66 952	363 107	267 812	291 765
Operating expenses	577 325	660 767	1 929 502	2 007 807	2 370 128
Interest expense	31 249	133 768	74 832	359 275	443 565
Total operating expenses	608 574	794 535	2 004 334	2 367 082	2 813 693
Results from operations	-390 451	-727 583	-1 641 227	-2 099 270	-2 521 928
Other income/expense	-124 090	-429 096	-27 547	-744 041	-2 375 655
Net result	-514 541	-1 156 679	-1 668 774	-2 843 311	-4 897 583
Per share data:					
Basic and diluted loss per share	-0.01	-0,50	-0,04	-1,23	-0.93
Weighted average shares outstanding	39 478 041	2 308 237	37 234 451	2 308 088	5 251 933

Consolidated statements of cash flow (USD)

	July - September 2010		January - September 2009		2009
Net results	-514 541	-1 156 679	-1 668 774	-2 843 311	-4 897 583
Adjustments to reconcile net loss to cash	8 423	799 363	-452 403	1 624 870	2 893 877
Net cash used in operating activities	-452 403	-357 316	-2 121 177	-1 218 441	-2 003 706
Cash flow used in investing activities	-3 070	0	-68 381	12 484	0
Cash flow from financing activities	35 918	314 266	1 634 844	533 313	1 919 709
Net increase (decrease) in cash	-473 270	-43 050	-554 714	-672 644	-83 997
Cash and cash equivalents, beginning	539 698	75 545	621 142	705 139	705 139
Cash and cash equivalents, end	66 428	32 495	69 428	32 495	621 142

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Consolidated balance sheets (USD)

	30.09.2010	30.09.2009	31.12.2009
Cash and cash equivalents	66 428	32 495	621 142
Inventory	767 578	617 247	251 589
Other current assets	268 238	61 038	81 421
Total current assets	1 102 244	710 780	954 152
Goodwill	0	669 788	0
Patents & trademarks	0	1 333 362	0
Other assets	397 850	415 355	235 405
TOTAL ASSETS	1 500 094	3 129 285	1 189 557
Accounts payable	496 099	1 392 881	339 371
Accrued expenses/other current liabilities	370 472	1 486 563	182 733
Short term borrowings	1 070 531	3 535 034	167 261
Short term portion of long term debt	0	245 955	0
Total current liabilities	1 937 102	6 660 433	689 364
Long term loans, net of short term portion	0	1 041 206	0
Total long term liabilities	0	1 041 206	0
TOTAL LIABILITIES	1 937 102	7 701 639	689 364
Common stock	3 947 804	230 824	3 597 804
Additional paid-in equity	47 205 951	43 064 539	46 824 378
Accumulated deficit and comprehensive loss	-51 590 763	-47 867 717	-49 921 989
Total shareholders equity	-437 008	-4 572 354	500 193
TOTAL LIABILITIES AND EQUITY	1 500 094	3 129 285	1 189 557

Group equity (USD)

	30.09.2010	30.09.2009	31.12.2009
Equity at beginning of period	500 193	-1 755 131	-1 755 131
Sale of stock/share issues	731 573	26 088	7 152 907
Net results	-1 668 774	-2 843 311	-4 897 583
Equity at end of period	-437 008	-4 572 354	500 193