Nio Security, Inc.

Q4 2010 Interim Report

Watchful Intelligence

February 25, 2011

HIGHLIGHTS

- Positive margin development maintained
- G4S partnership created basis for 2011 sales growth
- Production ramped up and fully scalable
- NOK 15 million private placement completed in January 2011

OPERATIONAL PERFORMANCE

During 2010, Nio Security succeeded in stabilizing its operations following the refinancing and restructuring at the end of 2009. Nio's sophisticated video surveillance solutions, CloseView and SteadyEye are considered technology leaders in the market. The Company remains on track towards building revenue and reaching profitability.

Nio's margins have seen a positive trend during 2010, from a gross margin of 14 per cent in the fourth quarter 2009 to 68 per cent in the last quarter of 2010. For the full year 2010 Nio's gross margin ended at 57 per cent.

Sales in the fourth quarter 2010 were up 29 per cent from the previous year to US$ 218,000 in the quarter. For the full year sales were US$ 895,060, which is at par with the previous year. Operating expenses are stabilized and with significant amounts invested in parts and components to secure production in 2011. In its current state the business is highly scalable and Nio Security is well positioned for revenue growth and positive earnings from the distributor and dealership agreements established in 2010.

In the fourth quarter of 2010, Nio entered into a dealership agreement with G4S Secure Solutions which covers the Norwegian market and represents an estimated sales volume of USD 2 million in 2011. Prior to the agreement, G4S 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 pursue further international business opportunities.

The first G4S security system integrating Nio's sophisticated video surveillance solution has been installed at the Norwegian Museum of Decorative Arts and Design in Oslo. Training of the dedicated G4S team of sales personnel and technicians in the four largest Norwegian cities is completed, and G4S will ramp up marketing and sales of Nio's products as an integral part of the group's security offering.

North America remains the largest market for Nio's products and Nio experienced stable growth through its US dealer network in the fourth quarter. The Scandinavian and European markets for security and video surveillance are growing rapidly, and the distributor and dealership agreements established in 2010 are important milestones in developing Nio as a main provider of sophisticated video surveillance equipment in Europe.

Nio's marketing strategy includes partnerships with major security services vendors who serve attractive end user market segments. The current order backlog and Nio's distributor and dealership agreements represent a combined expected sales volume in excess of USD 5 million appearing in 2011 and 2012.

Nio has started to explore the potential for additional applications of its technology, developed through earlier R&D activities on its algorithms and intellectual property. This might open new applications and markets for Nio's technology and create synergies with other emerging and maturing technologies. An area currently being explored is sophisticated medical monitoring of patients and elderly people needing care, in hospital or at home.

The Board of Directors believes that the initiatives taken and the agreements entered into through 2010 will improve Nio'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 fourth quarter of 2010 were US$ 218,000, an increase of 29 per cent from US$ 169,632 for the fourth quarter of 2009. The gross margin for the fourth quarter of 2010 was 68 per cent, compared to 14 per cent for the fourth quarter of 2009. For the full year 2010, sales were US$ 895,060, compared to US$ 899,171 for the year 2009. The gross margin for the year 2010 was 57 per cent, compared to 32 per cent for the year 2009. The increase in the gross margin is a result of the discontinuation of the DVR product line early 2010 and focus on sales of the Company's core products, CloseView and SteadyEye. North America remains the primary market for Nio products, representing 64 per cent of revenues in 2010.

Operating expenses for the fourth quarter of 2010 were US$ 538,970 compared to US$ 362,322 for the fourth quarter of 2009. Including an interest expense of USD 116,189, loss from operations was US$ 506,150 for the fourth quarter of 2010, compared to a US$ 388,949 loss for the same period in 2009. For the full year 2010, operating expenses were US$ 2,468,472, compared to US$ 2,370,128 for the year 2009. After interest expense, loss from operations was US$ 2,147,377 for the full year 2010, compared to a US$ 2,521,928 loss for 2009.

During 2010, Nio entered into loan agreements aggregating a balance of NOK 9.46 million per December 31, 2010, mainly with major shareholders. Of these loans, NOK 3.1 million has maturity in 2012 and is considered as long term loans per December 31, 2010. Subsequent to the fourth quarter of 2010, the short term loans have been repaid with NOK 5 million.

Nio is monitoring its production process closely due to significant lead times for certain components used in the Company's core products. As a result, Nio has invested in parts and components for future production, and around US$ 0.8 million of the inventory at December 31, 2010, were such parts and components.

The Company's equity was negative per December 31, 2010. Subsequent to year end 2010, the private placement in January 2011 and the subsequent offering in February 2011 have strengthened the Company's equity with USD xx, and the working capital is considered sufficient to cover present requirements.

Nio's financial statements for 2010 include the wholly owned subsidiary Tempest Microsystems Inc. A Certification of Dissolution for Tempest was submitted on December 28, 2010, and the California Secretary of State confirmed on January 20, 2011 that Tempest has been dissolved.

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.

SHAREHOLDER MATTERS

There were no changes to the number of outstanding shares during the fourth quarter of 2010. The Company has 100,000,000 authorized shares, whereof 39,478,041 where outstanding per December 31, 2010. In addition, 19,634 options and 31,800,000 warrants were outstanding at December 31, 2010.

In January 2011, Nio completed a NOK 15 million private placement of 6,000,000 shares at a subscription price of NOK 2.50 per share. After the private placement, the new number of outstanding shares is 45,478,041. A prospectus for the listing of the new shares was approved by the Financial Supervisory Authority of Norway (Finanstilsynet) on February 15, 2011, and a subsequent offering to existing shareholders not participating in the private placement has been completed, resulting in subscription of additional 156,268 shares at NOK 2.50 per share. These new shares will be issued in March 2011.

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.

February 25, 2011

The Board of Directors of Nio Security, Inc.

Espen Brodin Chairman & CEO	Bjarne Støtvig Executive Director	Jon Skabo Director	Lars Moldestad Director

Consolidated statement of operations (USD)

	October - December 2010	October - December 2009	January - December 2010	January - December 2009
Sales	218 000	169 632	895 060	899 171
Cost of sales	68 991	145 679	382 944	607 406
Gross Profit	**149 009**	**23 953**	**512 116**	**291 765**
Operating expenses	538 970	362 322	2 468 472	2 370 128
Interest expense	116 189	50 580	191 021	443 565
Total operating expenses	**655 159**	**412 902**	**2 659 493**	**2 813 693**
Results from operations	**-506 150**	**-388 949**	**-2 147 377**	**-2 521 928**
Foreign currency exchange gain/loss	-9 934	-156 931	-144 394	-916 584
Other income/expense	-31 205	-1 508 393	75 708	-1 459 071
Net result	**-547 289**	**-2 054 273**	**-2 216 063**	**-4 897 583**
Provision for income taxes	0	0	0	0
Other comprehensive income/loss	0	0	0	0
Comprehensive loss	**-547 289**	**-2 054 273**	**-2 216 063**	**-4 897 583**
Per share data:				
Basic and diluted loss per share	-0,01	-0,15	-0,06	-0.93
Weighted average shares outstanding	39 478 041	14 019 473	37 799 959	5 251 933

Consolidated statements of cash flow (USD)

	October – December 2010	October – December 2009	January - December 2010	January - December 2009
Net results	-547 289	-2 054 273	-2 216 063	-4 897 583
Adjustments to reconcile net loss to cash	-56 829	1 269 008	-509 232	2 893 877
Net cash used in operating activities	-604 118	-785 265	-2 725 295	-2 003 706
Cash flow used in investing activities	8 767	-12 484	-59 614	0
Cash flow from financing activities	550 470	1 386 396	2 185 314	1 919 709
Net increase (decrease) in cash	-44 881	588 647	-599 595	-83 997
Cash and cash equivalents, beginning	66 428	32 495	621 142	705 139
Cash and cash equivalents, end	21 547	621 142	21 547	621 142

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Consolidated balance sheets (USD)

	31.12.2010	31.12.2009
Cash and cash equivilents	21 547	621 142
Inventory	1 026 655	251 589
Other current assets	99 870	81 421
Total current assets	1 148 072	954 152
Other assets	339 220	235 405
TOTAL ASSETS	**1 487 292**	**1 189 557**
Accounts payable	595 590	339 371
Accrued expenses/other current liabilities	254 997	182 732
Short term borrowings	1 087 806	167 261
Total current liabilities	1 938 393	689 364
Long term loans, net of short term portion	533 196	0
Total long term liabilities	533 196	0
TOTAL LIABILITIES	**2 471 589**	**689 364**
Common stock	3 947 804	3 597 804
Additional paid-in equity	47 205 951	46 824 378
Accumulated deficit and comprehensive loss	-52 138 052	-49 921 989
Total shareholders equity	-984 297	500 193
TOTAL LIABILITIES AND EQUITY	**1 487 292**	**1 189 557**

Group equity (USD)

	31.12.2010	31.12.2009
Equity at beginning of period	500 193	-1 755 131
Issuance of stock upon conversion of debt	0	5 268 512
Sale of stock	731 573	1 858 307
Other changes	0	26 088
Net results	-2 216 063	-4 897 583
Equity at end of period	-984 297	500 193

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