Nio Security, Inc.

Q1 2011 Interim Report

Watchful Intelligence

May 27, 2011

HIGHLIGHTS

- Attractive gross margin maintained
- Distributors ramping up sales efforts
- NOK 15 million private placement completed in January
- 2011 outlook remains positive

PERFORMANCE

In the first quarter of 2011, Nio Security continued to expand its international market reach through the cooperation with partners in the security industry. The pipeline of firm and potential future sales, constituted by received orders and distributor agreements, remained attractive.

Ultimo 2010, the Company entered into new contracts for distribution of Nio products with leading security companies, among them Infratek and G4S Secure Solutions. Comprehensive training on Nio products has been conducted in the first quarter and into the second quarter, and more than 60 sales representatives and technicians from these companies have been educated. This training process has taken more time than first anticipated, however the distributors have now integrated Nio's products into their security offerings and are currently ramping up sales.

Nio Security is again experiencing strong interest from United States customers which traditionally has been Nio's largest market. The Company is expecting growth in this region as a result of our sales and marketing efforts towards our dealer network. Among others, several demos and tests have been conducted in connection with the ISC West trade show in Las Vegas, resulting in successfully trial periods and new installations of Nio systems in order to further improve security.

The number of distributors has been expanded also after the first quarter with a new distribution agreement with an Israeli company focusing mainly on Israel and Russia. Nio experiences increasing interest for our products, and the Company remains on track towards increasing revenue and reaching profitability.

Due to seasonality and the factors described above, Nio's sales in the first quarter ended at USD 102,387. This is a 9 per cent increase from last year's first quarter, but a 53 per cent decline from the previous quarter. The gross profit margin ended at 61 per cent in the first quarter, against 49 per cent in the first quarter of 2010. Operating expenses saw a 14 per cent decline from the first quarter last year, ending at USD 629,067 for the quarter.

Nio's net loss for the first quarter ended at USD 613,680, which is a USD 120,000 improvement from last year's first three months. See attached statements of operations and balance sheets for more information.

Share issues in the quarter added a net amount of approximately USD 2.4 million to Nio's equity. The Company repaid loans in the quarter, reducing total liabilities by 48 per cent. At the end of the first quarter, shareholders' equity is positive, standing at USD 816,780 compared to a negative USD 984,297 per December 31, 2010.

Cash and cash equivalents stood at USD 569,318 at the end of the first quarter. Nio has deliberately built up inventory over the two last quarters in preparation for the sales increase expected in the remaining months of 2011. It is expected that a significant part of the capital allocated to inventory will be converted into revenues in the coming quarters. There is long lead time for several components included in Nio's products, necessitating substantial inventory.

The financial statements are prepared in accordance with US Generally Accepted Accounting Principles (US-GAAP) and on the going concern assumption. The financial statements have not been subject to a full or limited audit. 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

Nio Security conducted a private placement of 6 million shares at a price of NOK 2.50 per share in January 2011, raising gross proceeds of NOK 15 million. The private placement was followed by a repair issue later in the quarter. A total 6,156,268 new shares were issued, bringing the total number of outstanding shares to 45,634,309 shares. In addition, 19,634 options and 31,800,000 warrants were outstanding at March 31, 2011.

In the annual meeting of the shareholders on May 19, 2011, the Company's Certificate of Incorporation was amended to increase the Company's authorized shares to 150,000,000 shares.

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 world's 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.

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.

May 27, 2011

The Board of Directors of Nio Security, Inc.

Lars Moldestad	Bjarne Støtvig	Jon Skabo	Monica Mjøs Lassen
Chairman	Director	Director	Director

Statement of operations (USD)

	January – March 2011	2010	2010
Sales	102 387	93 874	895 060
Cost of sales	40 357	47 621	382 944
Gross Profit	**62 030**	**46 253**	**512 116**
Operating expenses	629 067	733 506	2 468 472
Interest expense	42 061	20 754	191 021
Total operating expenses	**671 128**	**754 260**	**2 659 493**
Results from operations	**-609 098**	**-708 007**	**-2 147 377**
Foreign currency exchange gain/loss	-829	0	-144 394
Other income/expense	-3 933	-25 853	75 708
Net result	**-613 860**	**-733 860**	**-2 216 063**
Provision for income taxes	0	0	0
Other comprehensive income/loss	0	0	0
Comprehensive loss	**-613 860**	**-733 860**	**-2 216 063**
Per share data:			
Basic and diluted loss per share	-0,01	-0,02	-0,06
Weighted average shares outstanding	44 259 991	35 978 041	37 799 959

Statements of cash flow (USD)

	January – March 2011	2010	2010
Net results	-613 860	-733 860	-2 216 063
Adjustments to reconcile net loss to cash	-441 686	-202 440	-509 232
Net cash used in operating activities	-1 055 546	-936 300	-2 725 295
Cash flow used in investing activities	0	-35 125	-59 614
Cash flow from financing activities	1 603 317	620 746	2 185 314
Net increase (decrease) in cash	547 771	-350 679	-599 595
Cash and cash equivalents, beginning	21 547	621 142	621 142
Cash and cash equivalents, end	569 318	270 463	21 547

Nio's financial statements consist of parent numbers only as there were no discontinued operations during these periods.

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Balance sheets (USD)

	31.03.2011	31.03.2010	31.12.2010
Cash and cash equivilents	569 318	270 463	21 547
Inventory	1 086 506	510 221	1 026 655
Other current assets	92 108	73 748	99 870
Total current assets	1 747 932	854 432	1 148 072
Other assets	345 098	269 004	339 220
TOTAL ASSETS	2 093 030	1 123 436	1 487 292
Accounts payable	285 131	376 818	595 590
Accrued expenses/other current liabilities	181 738	192 278	254 997
Short term borrowings	809 381	788 007	1 087 806
Total current liabilities	1 276 250	1 357 103	1 938 393
Long term loans, net of short term portion	0	0	533 196
Total long term liabilities	0	0	533 196
TOTAL LIABILITIES	1 276 250	1 357 103	2 471 589
Common stock	4 563 431	3 597 804	3 947 804
Additional paid-in equity	49 005 261	46 824 378	47 205 951
Accumulated deficit and comprehensive loss	-52 751 912	-50 655 849	-52 138 052
Total shareholders equity	816 780	-233 667	-984 297
TOTAL LIABILITIES AND EQUITY	2 093 030	1 123 436	1 487 292

Equity (USD)

	31.03.2011	31.03.2010	31.12.2010
Equity at beginning of period	-984 297	500 193	500 193
Sale of stock / share issues	2 414 937	0	731 573
Other changes	0	0	0
Net results	-613 860	-733 860	-2 216 063
Equity at end of period	816 780	-233 667	-984 297

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