Nio Security, Inc.

Q2 2011 Interim Report

Watchful Intelligence

August 29, 2011

HIGHLIGHTS

- Completed training sessions with distributors
- Ramping up sales channels for future growth
- Outlook remains positive

PERFORMANCE

In the second quarter of 2011, Nio Security continued to expand its international market reach through the cooperation with partners in the security industry.

United States is still the largest market for Nio, with around 70 per cent of the sales in the first six months of 2011. During the second quarter of 2011, Nio continued its market efforts, among these attending the large ISC West trade show in Las Vegas. The Company's products gained interest from the industry, with request for demos and trial periods from potential customers. After the show, one of Las Vegas' most famous hotels and casinos has completed a trial period and has now permanently installed a number of Nio CloseView systems in order to further improve security.

In June, Nio renewed its cooperation with Metro Sales Group, one of the leading manufacturing representative firms in the security industry with a large customer base among security dealers. Metro Sales are now ramping up marketing and sales of Nio's products in the large metropolitan New York and the northeast US market. The Company is expecting growth in this region as a result of our sales and marketing, and the overall progress is according to plan.

In the Nordic markets, sales are now picking up. Comprehensive training on Nio products was conducted during the first six months of 2011, with more than 60 sales representatives and technicians from our distributors being educated. Leading security companies, among them G4S Secure Solutions and Infratek are now integrating Nio's products into their security offerings which should lead to increasing sales going forward. For the European market, the financial turmoil has had an impact on sales, especially in the southern region were lack of funding for certain public and governmental security installations result in delays for our order backlog.

Outside the US and Europe, the number of distributors have been expanded in 2011 with new distribution channels being established for large markets in Israel, Russia and Singapore. Nio experiences increasing interest for our products, and the Company remains on track towards increasing revenue and reaching profitability.

Nio's sales in the second quarter ended at USD 84,133, which is an 18 per cent decline from the previous quarter. For the first six months of 2011, sales were USD 186,520, compared to USD 266,527 for the same period in 2010. The gross profit margin ended at 68 per cent in the second quarter, against 57 per cent in the second quarter of 2010. Operating expenses are continuing to improve, and saw a 15 per cent decline from the second quarter last year, ending at USD 525,918 for the quarter excluding interest expense. For the first six months of 2011, operating expenses excluding interest expense were USD 1,154,985, down from USD 1,352,177 for the same period in 2010.

Nio's result from operations for the second quarter ended with a USD 498,484 loss, which is an improvement from the same period last year. See attached statements of operations and balance sheets for more information.

Nio has deliberately built up inventory 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. Due to a difficult world wide market for technical components, there is long lead time for several components included in Nio's products, necessitating substantial inventory.

The Board of Directors believes that new distribution channels and the initiatives taken 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.

SHAREHOLDER MATTERS

At the Company's Annual Meeting of Shareholders on May 19, 2011, Mr. Lars Moldestad (chairman), Mr. Bjarne Støtvig, Mr. Jon Skabo and were re-elected as board members and Mrs. Monica Mjøs Lassen was elected as new board member. Nio's former Chairman and CEO, Mr. Espen Brodin, resigned from his positions and Mr. Tore Formo was appointed Chief Executive of Nio.

The Meeting of Shareholders also resolved to increase the Company's number of authorized shares from 100,000,000 to 150,000,000, whereof 45,634,309 shares were outstanding at June 30, 2011, each with a par value of USD 0.10. In addition, 19,634 options and 31,800,000 warrants were outstanding at June 30, 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 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.

STATEMENT FROM THE BOARD OF DIRECTORS

The Board of Directors has today approved the condensed financial statements for the first six months of 2011 and the condensed balance per June 30, 2011 for Nio Security, Inc.

We declare to the best of our belief that the condensed financial statements for the first half of 2011 gives a true and fair view of the Company's assets, liabilities, financial position and results of operations, and that the report is produced according to prevailing accounting standards. We also declare, to the best of our belief, that the half-year report provides a fair view of the information required under §5-6 (4) of the Norwegian Securities Act. We also confirm that the most relevant risks the Company is exposed to as well as any description of transactions with related parties are correct.

August 29, 2011
The Board of Directors of Nio Security, Inc.

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

Condensed Income Statement (USD)
Unaudited

	April – June		January – June		
	2011	2010	2011	2010	2010
Sales	84 133	172 653	186 520	266 527	895 060
Cost of sales	26 745	73 922	67 102	121 543	382 944
Gross Profit	**57 388**	**98 731**	**119 418**	**144 984**	**512 116**
Operating expenses:					
Marketing, general and administrative	388 931	482 773	862 084	1 138 585	1 952 770
Research and development	136 987	135 898	292 901	213 592	515 702
Interest expense	29 954	22,829	72 015	43 583	191 021
Total operating expenses	**555 872**	**641,500**	**1 227 000**	**1 395 760**	**2 659 493**
Results from operations	**-498 484**	**-542 769**	**-1 107 582**	**-1 250 776**	**-2 147 377**
Other income/expense	-9 352	122 396	-14 114	96 543	-68 686
Net result	**-507 836**	**-420 373**	**-1 121 696**	**-1 154 233**	**-2 216 063**
Per share data:					
Basic and diluted loss per share	-0.01	-0.01	-0,02	-0.03	-0,06
Weighted average shares outstanding	45 634 309	36 208 810	44 950 946	36 094 063	37 799 959

Statements of cash flow (USD)
Unaudited

	April – June		January – June		
	2011	2010	2011	2010	2010
Net results	-507 836	-420 373	-1 121 696	-1 154 233	-2 216 063
Accrued interest on loans	29 911	17 997	70 066	21 638	131 231
Exchange gains/losses	18 823	0	63 742	0	0
Depreciation	4 347	14 353	8 699	26 774	49 778
Changes in assets and liabilities:					
Trade account receivables	5 224	-56 498	17 758	-44 038	-23 537
Inventories	-80 681	-112 066	-140 532	-370 698	-775 066
Other current assets	8 835	12 672	4 063	7 886	5 088
Other assets	45 961	-47 732	35 731	-58 628	-93 980
Accounts payable	-9 500	-25 928	-319 959	11 519	256 219
Accrued expenses and other current liabilities	-6 897	-61 184	-120 311	-55 279	-58 966
Net cash used by operating activities	-491 813	-678 759	-1 502 439	-1 615 059	-2 725 296
Cash flows from investing activities:					
Purchase of property & equipment	0	-30 186	0	-65 311	-59 613
Net cash used by investing activities	0	-30 186	0	-65 311	-59 613
Cash flows from financing activities:					
Proceeds from short term loans	0	289 159	0	909 905	1 568 932
Repayment of loans	0	-42 552	-856 540	-42 552	-115 191
Net proceeds from stock issues	0	731 573	2 414 937	731 573	731 573
Net cash provided by financing activities	0	978 180	1 588 397	1 598 926	2 185 314
Net increase (decrease) in cash	-491 813	269 235	55 958	-81 444	-599 595
Cash and cash equivalents, beginning	569 318	270 463	21 547	621 142	621 142
Cash and cash equivalents, end	77 505	539 698	77 505	539 698	21 547

Condensed Balance sheets (USD)

Unaudited	30.06.2011	30.06.2010	31.12.2010
Cash and cash equivilents	77 505	539 698	21 547
Trade accounts receivable, net	61 742	100 001	79 500
Inventory	1 167 187	622 287	1 026 655
Other current assets	16 307	17 573	20 370
Total current assets	1 322 741	1 279 559	1 148 072
Property and equipment, net	38 628	76 028	47 327
Other assets	256 162	256 541	291 893
Total other assets	294 790	332 569	339 220
TOTAL ASSETS	**1 617 531**	**1 612 128**	**1 487 292**
Accounts payable	275 631	350 890	595 590
Accrued expenses/other current liabilities	204 752	149 091	254 997
Short term borrowings	828 204	1 034 614	1 087 806
Total current liabilities	1 308 587	1 534 595	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	**1 308 587**	**1 534 595**	**2 471 589**
Common stock	4 563 431	3 947 804	3 947 804
Additional paid-in equity	49 005 261	47 205 951	47 205 951
Accumulated deficit and comprehensive loss	-53 259 748	-51 076 222	-52 138 052
Total shareholders equity	308 944	77 533	-984 297
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	**1 617 531**	**1 612 128**	**1 487 292**

Equity (USD)

	30.06.2011	30.06.2010	31.12.2010
Equity at beginning of period	-984 297	500 193	500 193
Sale of stock / share issues	2 414 937	731 573	731 573
Net results	-1 121 696	-1 154 233	-2 216 063
Equity at end of period	308 944	77 533	-984 297

NIO SECURITY, INC.
Selected notes to Condensed Financial Statements for the period ended June 30, 2011

1. General Information

Nio Security, Inc. is a US corporation incorporated in the state of Delaware and is traded on the Oslo Stock Exchange with the ticker symbol "NIO". Nio Security, Inc. (the Company) represents the leading technology in intelligent video analysis for the video surveillance industry. The Company has offices in Norway, Germany and the United States.

2. Basis of Preparation

The condensed financial statements have been 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 if reported under IFRS. The condensed financial statements for the period ending June 30, 2011 have not been reviewed by the Company's auditors.

3. Summary of Significant Accounting Policies

Accounting Policies

The accounting policies adopted and used in preparing the condensed financial statements for the six month period ending June 30, 2011 are consistent with those used in preparing the Company's financial statements for the year ended December 31, 2010.

Revenue Recognition Policy

The Company recognizes revenue base upon the shipment of its goods to customers.

4. Segment Information

The Company operates one single segment based on the guidelines of ASC 280. The Company's entire revenue for the 6 months ended June 30, 2011 and the year ended December 31, 2010 is derived from the sale of its products to external customers and does not include revenue from other services or products.

5. Share Issues

In January, 2011, the Company conducted a private placement of 6 million shares at a price of NOK 2.50 per share raising gross proceeds of NOK 15 million (US$ 2,551,245) less NOK 984,000 (US$ 167,447) in placement fees. The private placement was followed by a subsequent offering of 156,268 shares at a price of NOK 2.50 per share in the 1st quarter, 2011, raising gross proceeds of NOK 390.670 (US$ 70,085) less NOK 19.533 (US$ 3,504) in placement fees. A total of 6,156,268 new shares were issued, bringing the total number of outstanding shares at June 30, 2011 to 45,634,309 shares, all common stock with a par value of US$ 0.10.

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.

6. Repayment of Debt

In January, 2011, the Company repaid loans due February 1, 2011 in the amount of NOK 5.000.000 (US$ 856,540) plus accrued interest in the amount NOK 767.800 (US$ 130,790).

7. Change in Equity

	Common Stock Shares	Common Stock Amount	Paid-in Equity	Accumulated Deficit	Total Stockholders' Equity (Deficit)
Balances at January 1, 2010	35,978,041	$ 3,597,804	$46,824,378	$(49,921,989)	$ 500,193
Sale of stock through private placement	3,500,000	$ 350,000	$ 381,573		$ 731,573
Net loss				$ (2,216,063)	$ (2,216,063)
Balances at December 31, 2010	39,478,041	$ 3,947,804	$47,205,951	$(52,138,052)	$ (984,297)
Sale of stock through private placement	6,156,268	$ 615,627	$ 1,799,310		$ 2,414,937
Net loss				$ (1,121,696)	$ (1,121,696)
Balances at June 30, 2011	45,634,309	$ 4,563,431	$49,005,261	$(53,259,748)	$ 308,944

8. Related Party Transactions

Loans from major shareholders were repaid in January, 2011 (see Note 6), whereof NOK 2,750,000 (US$ 471, 097) plus accrued interest of NOK 392,800 (US$ 66,911) to close associates of Lars Moldestad (director) and NOK 2,250,000 (US$ 385,443) plus accrued interest of NOK 375,000 (US$ 63,879) to Jon Skabo (director) and close associates.

9. Subsequent Events

No events have occurred subsequent to June 30, 2011 that would require disclosure or adjustment to the reported amounts for the six months period ended June 30, 2011.

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