LOREX TECHNOLOGY INC.

Interim Consolidated Financial Statements

For the three month period ended December 31, 2011

(Expressed in thousands of U.S. dollars)

Notice to Reader

The accompanying unaudited interim consolidated financial statements of LOREX Technology Inc. for the three month period ended December 31, 2011 have been prepared by and are the responsibility of the Company's management. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by The Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

LOREX Technology Inc.
Interim Consolidated Balance Sheets
(Expressed in thousands of U.S. dollars)
(unaudited)

	December 31, 2011 $	September 30, 2011 $	October 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents	1,213	995	192
Trade receivables	10,337	10,632	8,914
Inventory (note 6)	15,941	17,153	10,500
Prepaid expenses	1,574	1,414	1,769
Deferred financing costs (note 7)	94	94	92
	29,159	30,288	21,467
Non-current assets			
Property, plant and equipment	269	277	191
Intangible assets	637	282	2
Deferred income taxes (note 11)	1,593	1,594	1,190
Deferred financing costs (note 7)	-	23	117
Goodwill	739	739	739
Total assets	32,397	33,203	23,706
Liabilities			
Current liabilities			
Bank indebtedness (note 7)	4,049	4,168	2,724
Trade and other payables	10,619	13,614	10,673
Current portion of long-term debt (note 8)	257	147	-
	14,925	17,929	13,397
Non-current liabilities			
Long-term debt (note 8)	297	94	-
Total liabilities	15,222	18,023	13,397
Equity			
Share capital (note 9)	15,338	15,055	15,022
Contributed surplus	1,513	1,513	1,316
Retained earnings (deficit)	324	(1,388)	(6,029)
Total equity	17,175	15,180	10,309
Total liabilities and equity	32,397	33,203	23,706

The accompanying notes are an integral part of these interim consolidated financial statements.

LOREX Technology Inc.

Interim Consolidated Statements of Operations and Comprehensive Income
For the three month periods ended December 31, 2011 and 2010
(Expressed in thousands of U.S. dollars, except per share amounts)
(unaudited)

	2011 $	2010 $
Revenue	20,501	16,245
Cost of sales	13,206	10,577
Gross profit	7,295	5,668
Operating expenses		
Marketing, selling and operations	3,394	2,602
Administration	798	789
Research and development	360	302
	4,552	3,693
Earnings from operations	2,743	1,975
Finance income (expense)		
Interest expense	(100)	(79)
Foreign exchange gain (loss)	(9)	88
Finance income (loss), net	(109)	9
Earnings before income tax	2,634	1,984
Income tax expense (note 11)	922	179
Net earnings and comprehensive income for the period	1,712	1,805
Earnings per share:		
Basic	0.05	0.06
Diluted	0.04	0.04
Weighted average number of common shares outstanding		
Basic	35,549,489	31,290,278
Diluted	44,361,095	43,790,278

The accompanying notes are an integral part of these interim consolidated financial statements.

LOREX Technology Inc.

Interim Consolidated Statements of Changes in Equity
For the three month periods ended December 31, 2011 and 2010
(Expressed in thousands of U.S. dollars)
(unaudited)

	Common shares $	Class B preference shares $	Convertible preferred shares $	Total capital stock $	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit) $	Total $
Balance – October 1, 2010	13,711	146	1,165	15,022	1,316	-	(6,029)	10,309
Net earnings for the period	-	-	-	-	-	-	1,805	1,805
Stock-based compensation	-	-	-	-	2	-	-	2
Balance – December 31, 2010	13,711	146	1,165	15,022	1,318	-	(4,224)	12,116
Net earnings for the period	-	-	-	-	-	-	2,836	2,836
Stock-based compensation	-	-	-	-	195	-	-	195
Exercise of stock options	33	-	-	33	-	-	-	33
Conversion of preferred shares	335	-	(335)	-	-	-	-	-
Balance – September 30, 2011	14,079	146	830	15,055	1,513	-	(1,388)	15,180
Net earnings for the period	-	-	-	-	-	-	1,712	1,712
Exercise of stock options	283	-	-	283	-	-	-	283
Balance – December 31, 2011	14,362	146	830	15,338	1,513	-	324	17,175

The accompanying notes are an integral part of these interim consolidated financial statements.

LOREX Technology Inc.

Interim Consolidated Statements of Cash Flow
For the three month periods ended December 31, 2011 and 2010
(Expressed in thousands of U.S. dollars)
(unaudited)

	2011 $	2010 $
Cash provided by (used in):		
Operating activities		
Net earnings for the period	1,712	1,805
Adjustments for:		
Amortization	52	40
Deferred income taxes (recovery)	1	(196)
Stock-based compensation	-	2
Unrealized foreign exchange loss	-	11
Deferred financing costs	23	23
Changes in non-cash working capital:		
Trade receivables	295	369
Inventory	1,212	1,593
Prepaid expenses	(160)	(225)
Trade and other payables	(2,995)	(1,709)
Net cash provided by operating activities	140	1,713
Investing activities		
Purchase of property, plant and equipment and intangible assets	(399)	(384)
Net cash used in investing activities	(399)	(384)
Financing activities		
Net decrease in bank indebtedness	(119)	(1,148)
Proceeds from long-term debt issued	371	346
Payments of long-term debt	(58)	(94)
Exercise of stock options (note 9)	283	-
Net cash provided by (used in) financing activities	477	(896)
Increase in cash and cash equivalents	218	433
Cash and cash equivalents – beginning of period	995	192
Cash and cash equivalents – end of period	1,213	625
Cash paid for income tax	862	6
Cash paid for interest	59	88

The accompanying notes are an integral part of these interim consolidated financial statements.

1. Description of Business

LOREX Technology Inc. ("LOREX" or the "Company") (TSXV:LOX) provides businesses and consumers with leading edge video surveillance security solutions and sells its products under the LOREX and Digimerge brands. The LOREX brand, which caters to both small business and consumer markets, is available in thousands of retail locations across North America. The Digimerge division distributes its products through major distributors in North America. Both brands concentrate on the sale of wired, wireless and IP security surveillance and monitoring equipment including cameras, digital video recorders and all-in-one systems. The Company was incorporated in Canada and its head office is located at 250 Royal Crest Court, Markham, Ontario, Canada L3R 3S1.

2. Basis of Preparation and Adoption of International Financial Reporting Standards ("IFRS")

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 and IFRS 1. Subject to certain transition elections disclosed in Note 4, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at October 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended September 30, 2011. Comparative figures for 2010 in these financial statements have been restated to give effect to these changes.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as of March 19, 2012, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending September 30, 2012 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on the change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended September 30, 2011. Note 4 (v) discloses IFRS information for the year ended September 30, 2011 that is material to an understanding of these interim consolidated financial statements.

3. Summary of significant accounting policies, judgments and estimation uncertainty

Summary of significant accounting policies

Basis of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: LOREX Canada Inc. (an Ontario Corporation), LOREX Corporation (a Delaware corporation) and Strategic Vista Corporation Limited (a Hong Kong corporation). All intercompany transactions and balances are eliminated on consolidation.

Foreign currency translation
Items included in these interim consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The interim consolidated financial statements are presented in U.S. dollars, which is the functional currency of the Company and each of its subsidiaries.

Foreign currency transactions are translated into U.S. dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in non-U.S. currencies are recognized in the interim consolidated statement of operations and comprehensive income.

Inventory
Inventory is valued at the lower of cost and net realizable value. Cost is determined on a weighted average basis. Net realizable value is the estimated selling price less applicable selling expenses.

Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated amortization. Repairs and maintenance costs are expensed in the period in which they are incurred. Amortization is calculated on a straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives over the following terms:

Furnishings and equipment	3 years
Computer hardware and software	3 years
Leasehold improvements	3 years
Tooling	3 years

Intangible assets and research and development costs
The Company's intangible assets consist of a management information system and websites. Cost includes expenditures that are directly attributable to the acquisition and installation of the asset. Amortization commences when the asset is available for use and is calculated on a straight-line basis to write off the cost of the assets over their estimated useful lives over the following terms:

Management information system	5 years

Websites	3 years

The Company incurs costs associated with the design and development of new products and new features on existing products. Expenditures during the research phase are expensed as incurred. Expenditures during the development phase are capitalized if the Company can demonstrate each of the following criteria: (i) the technical feasibility of completing the intangible asset so that it will be available-for-sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) its ability to use or sell the intangible asset; (iv) how the intangible asset will generate probable future economic benefits; (v) the availability of adequate technical, financial and other resources to complete the development of the intangible asset; and (vi) its ability to reliably measure the expenditures attributable to the intangible asset during its development. Otherwise, development expenditures are expensed as incurred. To date, no product development costs have been capitalized.

Impairment of non-financial assets

Property, plant and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Intangible assets with an indefinite life or intangible assets not yet available for use are subject to an annual impairment test. For the purpose of measuring recoverable values, assets are grouped at the lowest levels for which there are separately identifiable cash-flows (cash-generating units or "CGU's"). The recoverable value is the higher of an asset's fair value less costs to sell and value in use (which is the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the value by which an asset's carrying value exceeds its recoverable value. The Company has three CGU's: retail, web and Digimerge.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists. Goodwill acquired through a business combination is allocated to each CGU, or group of CGU's, that are expected to benefit from the related business combination. A group of CGU's represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment. The Company's three CGU's are aggregated for purposes of goodwill impairment testing due to the interdependency of its operations.

The Company evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantively all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the interim consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables consist of trade receivables and cash and cash equivalents. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Financial liabilities at amortized cost
Financial liabilities at amortized cost include trade and other payables, bank indebtedness and long-term debt. Trade and other payables are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade and other payables are measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt are recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within one year. Otherwise, they are presented as non-current.

Provisions
Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Revenue recognition
The Company earns all of its revenue from the sale of products to its customers. Revenue is recognized when the Company has transferred to the customer the significant risks and rewards of ownership of the products, it is probable that the economic benefits will flow to the Company, delivery has occurred and the amount of revenue can be reliably measured. Revenue is measured based on the price specified in the sales contract, net of cash/volume discounts, estimated returns and certain marketing programs. Historical experience is used to estimate discounts and sales returns.

Stock-based compensation
The Company's stock option plans have been established for the benefit of the members of the Board of Directors, officers, full-time employees and consultants of the Company and its subsidiaries. New options granted under the current plan vest over a period determined by the Board of Directors but shall not exceed 10 years. The fair value of the stock options is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is

recognized over the vesting period of the options, based on the number of options expected to vest, by increasing contributed surplus.

Income taxes
Income tax expense consists of current and deferred income tax expense. Current income taxes are the expected taxes payable on the taxable income for the year using income tax rates enacted or substantively enacted at the end of the reporting period and any adjustments to income taxes payable in respect of previous years.

Deferred income taxes are the amount of income taxes expected to be paid or recovered in future periods in respect of temporary differences and unutilized tax losses. Deferred income taxes are determined based on differences between financial statement values and income tax values of assets and liabilities using substantively enacted income tax rates and laws expected to be in effect when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable these assets can be recovered and are presented as non-current.

Income tax expense for interim periods is calculated using the income tax rate that would be applicable to expected annual earnings.

Earnings per share
Basic earnings per share are calculated using the weighted average number of common shares outstanding during the periods. The computation of diluted earnings per share assumes the basic weighted average number of common shares outstanding during the period is increased to include the weighted average number of potentially dilutive shares that would have been outstanding during the period had all potential common shares been issued at the beginning of the period or when the underlying options or convertible preferred shares were granted, if later, unless they are anti-dilutive. The treasury stock method is used to determine the incremental number of shares that would have been outstanding had the Company used the proceeds from the exercise of stock options to acquire common shares.

Significant accounting judgments and estimation uncertainties

Inventory valuation
The Company performs a quarterly assessment of its inventory value, taking into consideration factors such as future demand for the inventory, expected new product introductions, competitive pressures and numerous other factors. A change to these assumptions could impact the valuation of inventory and have a resulting impact on margins.

Income taxes
The Company records a provision for income taxes in each of the jurisdictions in which it operates. The estimate of income taxes includes evaluating the recoverability of deferred income tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before they expire. The assessment is based on existing income

tax laws and estimates of future taxable income. To the extent these estimates differ from the actual income taxes assessed by the various authorities, earnings in a subsequent period would be affected.

Accounting standards issued but not yet applied

IFRS 9 – Financial Instruments
This standard simplifies the classification and measurement requirements for financial instruments. It replaces IAS 39 and will apply to annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact of this standard.

IFRS 10 – Consolidated Financial Statements, IFRS 11 – Joint Arrangements and IFRS 12 – Disclosure of interests in Other Entities
These new standards include a revision to the definition of control for the purposes of determining which arrangements should be consolidated and a reduction in the types of joint arrangements which are now based on rights and obligations. They also include new disclosure requirements for significant judgments and assumptions used in determining whether an entity controls, jointly controls or significantly influences its interests in other entities. These standards are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted if the three standards are adopted concurrently. The Company has not yet assessed the impact of these new standards,

IFRS 13 – Fair Value Measurement
This standard provides comprehensive guidance for fair value measurement and disclosure requirements for use across all IFRS standards. The standard applies to annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet assessed the impact of the new standard.

Amendments to existing standards not yet effective
In addition to the issuance of new standards, there have been amendments to existing standards, including IAS 27, Consolidated and Separate Financial Statements (“IAS 27”) and IAS 28, Investments in Associates (“IAS 28”). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13. Amendments to IAS 27 and IAS 28 are applicable to annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet assessed the impact of these amendments.

4. Transition to IFRS

The effect of the Company's transition to IFRS, described in Note 2, is summarized in this Note as follows:

(i) Transition elections
(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS
(iii) Explanatory notes
(iii) Adjustments to the statement of cash flows
(v) Additional IFRS information for the year ended September 30, 2011.

(i) Transition elections

The adoption of IFRS requires the application of IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the Company's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment. The Company has applied the following transitional exceptions and exemptions to full retrospective application of IFRS in its preparation of an opening IFRS consolidated balance sheet as at October 1, 2010, the Company's "transition date":

(a) To elect not to apply retrospective treatment to certain aspects of IAS 21, The Effect of Changes to Foreign Exchange Rates, and deem the cumulative translation differences for all foreign operations to be zero at the transition date.

(b) To elect to apply IFRS 3, Business Combinations, prospectively from the transition date and, therefore, not restate business combinations that occurred prior to the transition date. As such, Canadian GAAP balances relating to business combinations occurring prior to the transition date, including goodwill, have been carried forward without adjustment.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS consolidated balance sheet as at the transition date are consistent with those made under current Canadian GAAP.

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

	Note 4 (iii)	September 30, 2011			December 31, 2010			October 1, 2010		
		Cdn GAAP	Adj.	IFRS	Cdn GAAP	Adj.	IFRS	Cdn GAAP	Adj.	IFRS
		$	$	$	$	$	$	$	$	$
Assets										
Current assets										
Cash and cash equivalents		995	-	995	625	-	625	192	-	192
Trade receivables		10,632	-	10,632	8,545	-	8,545	8,914	-	8,914
Inventory		17,153	-	17,153	8,906	-	8,906	10,500	-	10,500
Prepaid expenses		1,414	-	1,414	1,994	-	1,994	1,769	-	1,769
Deferred financing costs		94	-	94	92	-	92	92	-	92
Deferred income taxes	a	1,589	(1,589)	-	979	(979)	-	376	(376)	-
		31,877	(1,589)	30,288	21,141	(979)	20,162	21,843	(376)	21,467
Non-current assets										
Property, plant and equipment		277	-	277	234	-	234	191	-	191
Intangible assets		282	-	282	294	-	294	2	-	2
Deferred income taxes	a	5	1,589	1,594	408	979	1,387	814	376	1,190
Deferred financing costs		23	-	23	94	-	94	117	-	117
Goodwill		739		739	739	-	739	739	-	739
Total assets		33,203	-	33,203	22,910	-	22,910	23,706	-	23,706
Liabilities										
Current liabilities										
Bank indebtedness		4,168	-	4,168	1,576	-	1,576	2,724	-	2,724
Trade and other payables		13,614		13,614	8,967		8,967	10,673		10,673
Current portion of long-term debt		147	-	147	121	-	121	-		-
		17,929	-	17,929	10,664	-	10,664	13,397	-	13,397
Non-current liabilities										
Long-term debt		94	-	94	130	-	130	-	-	-
Total liabilities		18,023	-	18,023	10,794	-	10,794	13,397	-	13,397
Equity										
Share capital		15,055	-	15,055	15,022	-	15,022	15,022	-	15,022
Contributed surplus		1,513	-	1,513	1,318	-	1,318	1,316	-	1,316
Accumulated other comprehensive income	c, d	(2,250)	2,250	-	(2,250)	2,250	-	(2,250)	2,250	-
Retained earnings (deficit)	c, e	862	(2,250)	(1,388)	(1,974)	(2,250)	(4,224)	(3,779)	(2,250)	(6,029)
Total equity		15,180	-	15,180	12,116	-	12,116	10,309	-	10,309
Total liabilities and equity		33,203	-	33,203	22,910	-	22,910	23,706	-	23,706

	Note 4 (iii)	Year ended September 30, 2011 Cdn GAAP $	Adj. $	IFRS $	Three months ended December 31, 2010 Cdn GAAP $	Adj. $	IFRS $
Revenue		62,662	-	62,662	16,245	-	16,245
Cost of sales		40,174	-	40,174	10,577	-	10,577
Gross profit		22,488	-	22,488	5,668	-	5,668
Marketing, selling and operations	b	11,759	69	11,828	2,593	9	2,602
Administration	b	3,568	44	3,612	783	6	789
Research and development	b	1,229	86	1,315	277	25	302
Interest		273	-	273	79	-	79
Amortization	b	199	(199)	-	40	(40)	-
Foreign exchange loss (gain)		(36)	-	(36)	(88)	-	(88)
		16,992	-	16,992	3,684	-	3,684
Earnings before income tax		5,496	-	5,496	1,984	-	1,984
Income tax expense		855	-	855	179	-	179
Net earnings for the period		4,641	-	4,641	1,805	-	1,805
Other comprehensive income		-	-	-	-	-	-
Comprehensive income		4,641	-	4,641	1,805	-	1,805

(iii) Explanatory notes

(a) Under IFRS, all deferred income tax assets are considered to be non-current.

(b) Amortization presented separately on the interim consolidated statement of operations and comprehensive income under Canadian GAAP has been reclassified and included in marketing, administrative and R&D expenses under IFRS in accordance with a function of expense method of presentation.

(c) In accordance with IFRS transitional provisions, the Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS.

(d) A summary of transition adjustments is as follows:

	September 30, 2011 $	December 31, 2010 $	October 1, 2010 $
Accumulated other comprehensive loss, as reported under Canadian GAAP	(2,250)	(2,250)	(2,250)
Cumulative translation adjustment (note 4(i)(a))	2,250	2,250	2,250
Accumulated other comprehensive loss, as reported under IFRS	-	-	-

(e) A summary of transition adjustments to the Company's accumulated retained earnings (deficit) from Canadian GAAP to IFRS is as follows:

	September 30, 2011	December 31, 2010	October 1, 2010
	$	$	$
Accumulated retained earnings (deficit), as reported under Canadian GAAP	862	(1,974)	(3,779)
Cumulative translation adjustment (note 4(i)(a))	(2,250)	(2,250)	(2,250)
Accumulated deficit, as reported under IFRS	(1,388)	(4,224)	(6,029)

(iv) The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

(v) The following additional IFRS disclosures relating to the year ended September 30, 2011 are material to an understanding of these interim consolidated financial statements:

(a) Expenses incurred by nature are as follows:

	Year ended September 30, 2011
	$
Cost of inventory recognized as an expense	40,174
Salaries, wages and benefits (note 4(v)(b))	5,089
Shipping, freight and distribution	2,785
Customer service and support	2,996
Amortization	199
Other	5,923
	57,166

(b) Salaries, wages and benefits

	Year ended September 30, 2011
	$
Salaries and wages	4,892
Stock-based compensation	197
	5,089

(c) Compensation of key management

Key management is defined as the officers, president and a senior vice president. Compensation of key management for the year ended September 30, 2011 is as follows:

	Year ended September 30, 2011
	$
Salaries and wages	1,841
Stock-based compensation	106
	1,947

5. Change in functional currency

At September 30, 2010, the U.S. dollar was the functional currency for two of the Company's subsidiaries and the Canadian dollar was the functional currency of LOREX and its Canadian subsidiary, LOREX Canada Inc. ("LCI"). Effective October 1, 2010, the functional currency of LOREX and LCI became the U.S. dollar. This change is a result of an assessment of the primary indicators in accordance with IAS 21, Foreign Currency, and the fact that the Company is no longer relying on Canadian dollar financing. Prior to October 1, 2010, the equity accounts of LOREX were translated into U.S. dollars using historic exchange rates for reporting purposes. Due to the change in functional currency, these equity accounts are now translated into U.S. dollars using the October 1, 2010 exchange rate. The impact of this change was an increase in share capital of $3,750, an increase in contributed surplus of $93 and a decrease in accumulated other comprehensive income of $3,843. As the change in functional currency took place on October 1, 2010, the U.S. dollar translated amounts presented in Note 4 for share capital, contributed surplus and accumulated other comprehensive income as at October 1, 2010 reflect these balances under Canadian GAAP.

6. Inventory

	December 31, 2011	September 30, 2011	October 1, 2010
	$	$	$
Goods on hand	13,745	13,858	6,652
Goods in transit	2,070	2,763	3,648
Work in process	126	532	200
	15,941	17,153	10,500

The Company makes routine assessments to ensure that all inventory is recorded at the lower of cost and net realizable value and, in the three month period ended December 31, 2011, recorded in its cost of sales an amount of $36 (2010 - $186) in relation to amounts for certain items determined to exceed the net realizable value.

7. Bank indebtedness

In October 2011, the Company negotiated an amendment to its Credit Facility (the "Credit Facility") which increased availability to $15,000 from $10,000. The Company's Credit Facility bears interest at the U.S. floating base rate plus 1.75% for loans denominated in U.S. dollars or the Canadian floating prime rate plus 1.75% for loan balances denominated in Canadian dollars. The Credit Facility has a three-year term expiring on December 21, 2012. The credit line is secured by the accounts receivable and inventory of the Company's subsidiaries. The amount available for borrowing under the Credit Facility is subject to certain financial and non-financial covenants, as defined by the agreement. The Credit Facility imposes a debt covenant, which consists of a quarterly minimum fixed charge coverage ratio as well as a covenant on capital expenditures in any fiscal year. The Company was in compliance with the covenants at December 31, 2011. At December 31, 2011, the Company had $4,049 outstanding under the Credit Facility (September 30, 2011 - $4,168; October 1, 2010 - $2,724) and $2,578 (September 30, 2011 - $400) in letters of credit outstanding.

The Company incurred $277 of financing fees associated with the Credit Facility and recorded it as deferred financing costs to be amortized over the term of the facility.

For the three month period ended December 31, 2011, the weighted average interest rate on the Company's borrowings was 5.0% (2010 – 5.2%).

8. Long-term debt

Long-term debt relates the Company's installation of a management information system and website development as follows:

	December 31, 2011	September 30, 2011
	$	$
Finance lease obligation in connection with computer equipment bearing interest at 7.7% requiring blended monthly payments of Cdn.$1 to November 2014	40	43

Contractual obligation in connection with a software licence fee and implementation services requiring an initial payment of Cdn.$73 and monthly principal payments thereafter of Cdn.$9 plus interest to November 2012	82	109
Finance lease obligation in connection with computer equipment, bearing interest at 2.5%, requiring blended monthly payments of Cdn. $3 to August 2014. In December 2011, an additional $10 was advanced under this arrangement.	92	89
Contractual obligation in connection with the development of a new website requiring quarterly principal payments of Cdn.$32 plus interest to July 2014.	340	-
	554	241
Less: Amounts due within one year	257	147
	297	94

9. Share Capital

	December 31, 2011	September 30, 2011
	$	$
Authorized:		
200,000 Class A preferred shares with an 8% cumulative dividend accruing from January 1, 1998, redeemable at the option of the Company at $1 per share		
150,000 Class B preferred shares with an 8% cumulative dividend accruing from January 1, 1998, redeemable at the option of the Company at $1 per share		
12,500,000 convertible preferred shares, convertible by the holder into common shares on a one-to-one ratio		
Unlimited common shares		
Issued:		
150,000 Class B preferred shares	146	146
8,759,990 convertible preferred shares	830	830
36,052,788 common shares (September 30, 2011 – 35,130,288)	14,362	14,079
	15,338	15,055

During the three month period ended December 31, 2011, the Company issued 922,500 common shares upon the exercise of stock options for cash proceeds of $283 (note 10).

On November 22, 2011, the Company advanced a loan in the amount of $150 to an officer of the Company for the exercise of stock options. The loan is non-interest bearing, secured by the shares and has a maturity date of November 22, 2012.

10. Stock-based compensation

The Company, in accordance with the policies of the TSX Venture Exchange, is authorized to grant options to directors and employees to acquire up to 10% of the issued and outstanding common shares. In September 2011, the Company granted a total of 1,190,000 incentive stock options to a number of its directors, officers and employees. Each such option is exercisable into one common share within a period of five years from the date of grant at an exercise price of Cdn. $0.55. All of the above-referenced options vested immediately upon grant.

The fair value of the stock options granted in September 2011 was determined to be $197 using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate – 1.13%; expected life – five years; expected volatility – 40%; and expected dividends – nil. Due to the immediate vesting of the options, the Company recognized an expense of $197 in the year ended September 30, 2011.

A summary of the Company's stock options as at and for the period ended December 31, 2011 is presented below:

	Options	Weighted average exercise price (Cdn.)
		$
Outstanding and exercisable, September 30, 2011	2,419,500	0.437
Exercised	(922,500)	0.310
Forfeited	(47,000)	0.310
Outstanding and exercisable, December 31, 2011	1,450,000	0.522
Consisting of:		
Exercise price of $0.395, expiring January 17, 2013	260,000	
Exercise price of $0.55, expiring September 19, 2016	1,190,000	

11. Income taxes

	Three months ended December 31	
	2011	**2010**
	$	**$**
Income taxes based on the Canadian statutory tax rate of 26.75% (2010 – 28.75%)	705	519
Effect on expense (recovery) attributable to the following:		
Foreign operations subject to a different rate of tax	168	171
Impact of tax rate changes and other adjustments	49	44
Benefit of losses carried forward	-	(555)
	922	179

Deferred income tax assets consist of the following:

	December 31, 2011	**September 30, 2011**
	$	**$**
Inventory reserves	942	903
Sales returns	624	619
Net operating losses carried forward	-	48
Investment, property, plant and equipment, other	27	24
	1,593	1,594

12. Segmented information

The Company derives over 99% of its revenue from the sale of its products in the North American market. On a geographic basis, the Company's revenue was from the following regions:

	Three months ended December 31	
	2011	**2010**
	$	**$**
United States	17,201	14,467
Canada	3,255	1,624
Other	45	154
	20,501	16,245