LOREX TECHNOLOGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A") of the financial position of LOREX Technology Inc. ("LOREX" or the "Company") and the financial review for the three and nine month periods ended June 30, 2011 and 2010. This discussion should be read in conjunction with the Unaudited Interim Consolidated Financial Statements for the periods ended June 30, 2011 and 2010 and the Audited Consolidated Financial Statements and related notes for the year ended September 30, 2010. All amounts are in thousands of U.S. dollars unless otherwise stated.

CAUTIONARY STATEMENTS REGARDING FORWARD LOOKING STATEMENTS

This MD&A for the three and nine month periods ended June 30, 2011 was completed on August 29, 2011 and contains notes and explanations of important events to this date.

Certain information contained in this report may contain statements that are forward-looking, such as statements relating to anticipated future revenues of the Company and the success of product offerings. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future, and accordingly, such results may differ materially from those expressed in any forward-looking statements made by or on behalf of the Company. These risks and uncertainties include without limitation, changes in competition, changes in technologies that impact products being developed and sold by the Company, changes in customer demand and, the availability of raw materials required to manufacture the Company's products. Any of these risks and uncertainties could cause actual results to vary materially from current results or the Company's currently anticipated future results. The Company wishes to caution readers not to place undue reliance on such forward-looking statements that speak only as of the date made.

Management's Discussion and Analysis

OVERVIEW AND HIGHLIGHTS

OVERVIEW OF THE BUSINESS

LOREX Technology Inc. ("LOREX" or the "Company") (NEX: LOX.H) 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 and in the United Kingdom. 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 equipment including cameras, digital video recorders and all-in-one systems.

At June 30, 2011, LOREX subsidiaries include; LOREX Canada Inc. (an Ontario corporation), LOREX Corporation (a Delaware corporation) and Strategic Vista Corporation Limited (a Hong Kong corporation). On March 1, 2010, the Company amalgamated its then subsidiary Digimerge Technologies Inc. with LOREX Canada Inc. The business activities of both legal entities continue within the amalgamated subsidiary LOREX Canada Inc. In the second quarter of 2010, the Company dissolved two subsidiaries: XBL Solutions Inc. and Strategic Vista Direct, Inc.

REPORTING CURRENCY

The Company uses the U.S. dollar as its reporting currency.

Effective October 1, 2010, the functional currency of LOREX Technology Inc. and its subsidiary LOREX Canada Inc. changed from the Canadian dollar to the U.S. dollar. See "Change in Accounting Policies – Change in Functional Currency" for an explanation of this change.

THREE AND NINE MONTHS ENDED JUNE 30, 2011

GENERAL OVERVIEW

The Company recorded $3.0 million of net earnings in the first nine months of 2011, as compared to $1.3 million in the prior year. The increase in net earnings reflects revenue growth of 32%, improved gross profit and the release of future income tax valuation allowances.

FINANCIAL PERFORMANCE – THREE MONTHS ENDED JUNE 30, 2011

Revenues grew by 21% to $16,488 for the three month period ended June 30, 2011 from $13,661 in 2010. Operating expenses increased to $4,626 in 2011 from $3,680 in 2010 as a result of increased variable marketing and sales support expenses, and an increase in the doubtful accounts provision of $274 the majority of which is due to a customer entering Chapter 11 bankruptcy protection. Earnings before income taxes increased to $1,347 in 2011 from $1,261 in 2010; however the net earnings for the third quarter decreased to $920 ($0.03 per share) in 2011 compared to $1,142 ($0.04 per share) in 2010 due to higher income taxes.

FINANCIAL PERFORMANCE – NINE MONTHS ENDED JUNE 30, 2011

The Company's revenue for the first nine months of 2011 was $44.1 million as compared to $33.5 million in 2010. The increase is attributable to continued growth from our top 5 accounts and our in-house estore business; as well as timing of sales to a major U.S. customer and a new product launched in the first three months of 2011. The continuing growth in demand for the Company's Digimerge products and the introduction of the LIVE Snap wireless video home monitor contributed to the revenue growth.

Gross profit for the first nine months of 2011 was $15.9 million (36.2% of revenues) as compared to $11.9 million (35.5% of revenues) in 2010. The improvement was primarily the result of increased higher margin sales of professional grade product and in-house estore sales.

Operating expenses for the first nine months of 2011 were $12.3 million (28.0% of revenues) as compared to $10.3 million (30.8% of revenues) in 2010. The increase of $2.0 million was primarily due to: increased marketing, sales and operations expenses ($1.7 million) that were proportionate to current and projected sales growth, and higher administration support expenses ($0.5 million), offset by reduced interest expense ($0.2 million) and the gain for foreign exchange ($0.1 million).

Net earnings for the first nine months of 2011 were $3.0 million ($0.10 per share) as compared to $1.3 million ($0.04 per share) in 2010. The improvement was primarily the result of the combination of improved gross profit and the release of $0.5 million in future income tax valuation allowances as compared to $0.2 million in 2010.

QUARTERLY FINANCIAL RESULTS

(in thousands of dollars, except per share amounts)

	2011		2010				2009	
For the quarter ended	June 30	March 31	Dec. 31	Sept. 30	June 30	March 31	Dec. 31	Sept. 30
Revenue	16,488	11,336	16,245	13,265	13,661	9,342	10,499	11,798
Earnings before interest, income taxes and amortization*	1,464	359	2,102	1,948	1,390	223	465	710
Net earnings	920	244	1,805	2,661	1,142	36	137	440
Per share basis – basic	0.03	0.01	0.06	0.09	0.04	0.00	0.00	0.02
Per share basis - diluted	0.02	0.01	0.04	0.06	0.03	0.00	0.00	0.01

Earnings before interest, income taxes and amortization ("EBITDA") is not a measure of performance under Canadian GAAP. EBITDA should not be considered in isolation or as a substitute for Net Earnings nor as a measure of operating performance or profitability.

The third quarter of 2011 was the tenth consecutive profitable quarter and the eleventh consecutive quarter of positive EBITDA.

Further explanations of operating results are provided below.

CONSOLIDATED RESULTS OF OPERATIONS

Revenue

($000)	Three month period ended June 30 2011	Three month period ended June 30 2010	Nine month period ended June 30 2011	Nine month period ended June 30 2010
Revenue	16,488	13,661	44,069	33,502
Increase (decrease) over the comparable prior period	20.7%	6.8%	31.5%	(4.3%)
Proportion of revenue from:				
United States	86%	88%	88%	88%
Canada	13%	11%	11%	11%
Other	1%	1%	1%	1%
Proportion of revenue from top 5 customers	55%	52%	50%	43%

In the third quarter of 2011, revenue increased by 21% over 2010 due to continued growth from the top 5 customers and the in-house estore business.

The significant increase in revenue for the nine month period ended June 30, 2011 relates predominantly to continued growth from our top 5 accounts and our in-house estore business; as well as timing of sales to a major U.S. customer and a new product launched in the first three months of 2011. The continuing growth in demand for our Digimerge products and the introduction of our LIVE Snap wireless video home monitor in the first quarter of the year has contributed to the continued revenue growth.

Gross Profit

($000s)	Three month period ended June 30 2011	Three month period ended June 30 2010	Nine month period ended June 30 2011	Nine month period ended June 30 2010
Gross profit	5,973	4,941	15,936	11,900
As a percentage of revenue	36.2%	36.2%	36.2%	35.5%

Cost of sales includes the cost of manufactured products based on freight on board (FOB), factory prices, inbound freight, duty, and provisions to record inventory at its net realizable value.

The Company outsources its manufacturing to third parties in South Korea, Taiwan, and China.

For the three month period ended June 30, 2011, gross profit remained consistent with 2010 at 36.2%. Gross profit for the nine month period ended June 30, 2011 improved to 36.2% (2010 – 35.5%). The improvement in gross profit is attributable to the continuing favorable shift in product mix and a higher proportion of professional division and in-house estore sales.

Marketing, Selling and Operations Expenses

	Three month period ended June 30		Nine month period ended June 30	
($000s)	**2011**	**2010**	**2011**	**2010**
Marketing, selling and operations expenses	3,321	2,514	8,645	6,935
As a percentage of revenue	20.1%	18.4%	19.6%	20.7%

The principal components of marketing, selling and operations expense are outbound freight and distribution costs associated with product shipments, warranty/repair service costs, and salary and commission expenses for both internal and external sales and support personnel. Other costs include sales display and detailing costs to ensure the Company's products are displayed to enhance revenues.

The increase in marketing, selling and operations expenses for the current quarter includes the increase in the doubtful accounts provision of $274 the majority of which is due to a customer entering Chapter 11 bankruptcy protection, and an increase in warehousing and logistics costs of $113 due to the required increase in inventory levels in anticipation of fourth quarter sales planning. The balance of the increase is consistent with the strong revenue growth in the three and nine month periods ended June 30, 2011 reflecting higher co-operative marketing, warehousing, distribution and call center costs proportionate to current and projected sales growth.

Administration Expenses

	Three month period ended June 30		Nine month period ended June 30	
($000s)	**2011**	**2010**	**2011**	**2010**
Administration expenses	866	722	2,628	2,094
As a percentage of revenue	5.3%	5.3%	6.0%	6.3%

The main components of administrative expenses are wages and benefits, professional fees, general and office expenses and costs associated with the public company reporting requirements.

The increase in administration expenses in the three month period ended June 30, 2011 relates to a combination of professional fees incurred coordinating the transition to IFRS and increased back office support costs proportionate to our growth pattern. In addition to the above, the year-to-date increase in administration expenses reflects a former executive's severance in 2011, and the reversal of stock-based compensation expense of $116 related to forfeited unvested stock options in 2010.

Research and Development Expenses

	Three month period ended June 30		**Nine month period ended June 30**	
($000s)	**2011**	**2010**	**2011**	**2010**
Research and development expenses	311	330	871	825
As a percentage of revenue	1.9%	2.4%	2.0%	2.5%

Research and development expenses includes wages and benefits paid to individuals in the Company's product development group, costs associated with sub-contractors and the amortization costs associated with capitalized tooling and product design costs all of which are located in Canada.

The increase in research and development expenses for the nine month period relates primarily to higher product development fees incurred during the first six months of 2011 and, to a lesser extent, the strengthening Canadian dollar.

Interest Expense

	Three month period ended June 30		**Nine month period ended June 30**	
($000s)	**2011**	**2010**	**2011**	**2010**
Interest expense	67	65	182	342

The decrease in interest expense over the nine month period in 2011 from 2010 reflects primarily a lower average loan balance. Also, the Company's weighted average interest rate in 2011 was 5.2% as opposed to 5.3% in 2010.

Amortization of Capital and Intangible Assets

($000s)	Three month period ended June 30 2011	Three month period ended June 30 2010	Nine month period ended June 30 2011	Nine month period ended June 30 2010
Amortization of capital and intangible assets	50	64	149	169

The primary capital assets of the Company subject to amortization are: furnishings and equipment, computer hardware and software, leasehold improvements and tooling.

During 2011, the Company purchased $451 of capital and intangible assets the majority of which relates to a new management information system. Amortization commenced in March 2011 when the conversion to the new system occurred.

Loss (gain) on foreign exchange

($000s)	Three month period ended June 30 2011	Three month period ended June 30 2010	Nine month period ended June 30 2011	Nine month period ended June 30 2010
Loss (gain) on foreign exchange	11	(15)	(133)	(32)

During the nine months ended June 30, 2011 and 2010, the Company recognized a foreign exchange gain due to the impact of the strengthening Canadian dollar relative to the U.S. dollar.

Income Taxes

	Three month period ended June 30 2011	Three month period ended June 30 2010	Nine month period ended June 30 2011	Nine month period ended June 30 2010
Income tax rate	31.7%	9.4%	17.4%	16.1%

The effective tax rate for the three month period ended June 30, 2011 was 31.7% (2010 – 9.4%) which reflects foreign operations subject to higher rates of tax and prior US losses being fully utilized.

The effective tax rate for the nine month period ended June 30, 2011 was 17.4% which differs from the Canadian statutory tax rate of 28.75%. The amalgamation of two subsidiaries in 2010 allowed the Company to utilize loss carry-forwards the benefits of which were previously unrecognized. The reassessment of the valuation allowance in connection with the Company's future income tax assets of $500 also reduced the effective rate of tax. At June 30, 2011, the Company has non-capital losses of approximately Cdn $900 available for carry-forward to reduce future federal taxable income in Canada. These losses begin to expire in 2029.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2011, cash was unchanged from the September 30, 2010 balance of $192. The Company's policy is to transfer excess cash to reduce its loans outstanding.

In the first quarter of 2011, the Company incurred long-term debt of $346 in connection with a new management information system consisting of:

- Capital lease obligation in connection with computer equipment bearing interest at 7.7% requiring blended monthly payments of Cdn $1 to November 2014.
- Contractual obligation in connection with software license fee and implementation services requiring an initial payment of Cdn $73 and monthly principal payments thereafter of Cdn $9 plus interest to November 2012.

Working Capital

Accounts Receivable

The Company's accounts receivable increased by $2.0 million from $6.7 million at September 30, 2010 to $8.7 million at June 30, 2011 primarily due to the Company's 21% revenue growth for the three months ended June 30, 2011 as compared to 2010 and the accompanying timing for collections.

Inventory

The Company's inventory balance increased by $1.9 million from $10.5 million at September 30, 2010 to $12.4 million at June 30, 2011. The increase primarily relates to the build-up for anticipated sales during the remainder of fiscal 2011.

Prepaid Expenses and Deposits

Prepaid expenses and deposits increased by $0.3 million from $1.8 million at September 30, 2010 to $2.1 million at June 30, 2011 due to increased levels and timing of deposits with factories for new products.

Bank Indebtedness

The Company's bank indebtedness increased by $1.8 million from $2.5 million at September 30, 2010 to $4.3 million at June 30, 2011. The increase was primarily the result of increased inventory requirements and related prepaids, and timing of collection of accounts receivable.

Accounts Payable and Accrued Liabilities

The Company's accounts payable and accrued liabilities increased by $0.1 million from $8.4 million at September 30, 2010 to $8.5 million at June 30, 2011, due primarily to a former executive's severance accrual.

Capital and Intangible Assets and Expenditures

Capital and intangible assets, net of accumulated amortization, increased by $302 during the nine month period ended June 30, 2011. The increase relates predominantly to the new management information system acquired in December 2010.

Capital Stock and Dividends

At June 30, 2011, the Company had 31,390,278 common shares, 150,000 Class B preferred shares and 12,500,000 convertible preferred shares outstanding. The Company has not declared any dividends on its common shares over the past three fiscal years and does not plan to declare or pay any dividends on its common or preferred shares in the near term.

The Company did not issue any stock options in 2011 or 2010. At June 30, 2011, the Company had 1,229,500 stock options outstanding. During the nine month period ended June 30, 2010, 1,350,000 stock options were forfeited resulting in a net recovery of stock-based compensation expense of $116.

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. The exercise price of each option equals the market price of the Company's stock as calculated on the date of the grant. On May 13, 2011, 100,000 options were exercised at the price of $0.31 per share, and 25,000 options were forfeited.

On August 18, 2011, as part of the process for the Company to move from the NEX to Tier 1 of the TSX Venture Exchange, the holders of the Company's outstanding preference shares converted a total of 3,740,010 preference shares into common shares on a one-for-one basis in accordance with the Company's articles of amendment dated October 29, 2009. A total of 8,759,990 preference shares remain outstanding following such conversion.

RELATED PARTY TRANSACTIONS

During the nine month period ended June 30, 2011, legal fees of nil (2010 – $145) were paid to a law firm during the time one of its partners was a director of the Company. Also during the nine month period ended June 30, 2011, the Company incurred advisory fees of nil (2010 – $50) from a company in which a former director of the Company is a shareholder.

All related party transactions were in the normal course of business and were recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

CHANGE IN ACCOUNTING POLICIES

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 for LOREX Technology Inc. and its Canadian subsidiary, LOREX Canada Inc. Effective October 1, 2010, the functional currency of LOREX Technology Inc. and its subsidiary LOREX Canada Inc. changed from the Canadian dollar to the U.S. dollar. This is the result of the Company no longer relying on Canadian dollar financing and the continuing increase in U.S. denominated transactions in these Canadian entities, and the expectation that this increase will continue in future periods. Prior to October 1, 2010, the equity accounts of LOREX Technology Inc. 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 is an increase in share capital of $3,750; an increase in contributed surplus of $93 and a decrease in accumulated other comprehensive income ("AOCI") of $3,843. Prior to October 1, 2010, exchange rate differences arising on translation of the Canadian operations were recorded as a separate component of shareholders' equity as AOCI. Effective October 1, 2010, unrealized foreign exchange gains (losses) arising on the translation of non-U.S. dollar revenues, expenses, assets and liabilities are included in earnings in the period in which they occur.

Intangible assets

During the nine month period ended June 30, 2011, the Company capitalized costs of $308 in connection with the implementation of a new management information system. This asset is being amortized over its useful life which is estimated to be five years. Amortization commenced in March 2011 when the conversion to the new system occurred.

RECENT ACCOUNTING PRONOUNCEMENTS

Convergence to International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. The AcSB has confirmed that accounting standards in Canada for public companies are to converge with IFRS effective for fiscal periods beginning on or after January 1, 2011. For the Company, these new standards will be effective for the interim and annual financial statements commencing on October 1, 2011 with retrospective presentation of the comparative 2011 fiscal results. The Company's first financial statements to be reported in accordance with IFRS will be for the three month period ended December 31, 2011, with restatement of comparative periods.

The Company has assembled an IFRS transition team which consists of finance management and external consultants. Regular reporting to senior management and the Audit Committee of the Board of Directors will commence in 2011 as outlined below. The following table addresses key elements of the conversion plan and an assessment of the Company's progress.

Key Activity	Milestones	Status / Deadlines
IFRS Conversion Scoping Phase	Review of current standards vs. IFRS. Identification of significant differences. Assessment of available resources. Monitoring of changes to Canadian GAAP and IFRS and their impact to the Company.	September 1, 2010–November 30, 2010 Reported to Audit Committee – January 2011
Decisions on Accounting Policies and IFRS1	Formal review of differences in each area with the core team and members of cross-functional team as required. Assessment of differences between IFRS and the Company's current practices. Decision on accounting policy choices and IFRS1 for each assessed area.	February 1, 2011 – April 30, 2011 Report to Audit Committee – August 2011 and ongoing
Information Technology Evaluation	Identification of IT requirements, both hardware and software, for IFRS conversion.	Fall 2010 and ongoing

Key Activity	Milestones	Status / Deadlines
Control Environment: Internal Control Over Financial Reporting and Disclosure Controls and Procedures	Review and assessment of impact of accounting policy choices and changes relating to IFRS conversion. Update of internal control testing procedures and documentation for all accounting policy choices and changes. Implementation of appropriate changes, if required: ▪ MD&A Disclosure Requirements ▪ Key Performance Indicators ▪ Investor Relations Communication Process	February 1, 2011 – April 30, 2011 Report to Audit Committee – August 2011 and ongoing
Financial Impact Analysis for Transactional Areas	Analysis of differences between Canadian GAAP and IFRS that was completed will be quantified. Senior Management to review and sign-off.	May 1, 2011 – June 30, 2011 Report to Audit Committee – August 2011 and ongoing
Financial Statement Preparation	Identification of transactions impacted by IFRS conversion. An assessment of these transactions, appropriate changes and re-mapping will be completed. The assessment and re-mapping will form the skeleton of the IFRS compliant financial statements.	July 1, 2011 – August 15, 2011 Report to Audit Committee – August 2011 and ongoing
Business Activities Impact	Identification of impacts on business activities to be completed. Completion of any re-negotiations.	Ongoing throughout process Report to Audit Committee – Ongoing

Summarized below are key areas where changes in accounting policies are expected that may impact our consolidated financial statements.

First-time Adoption of IFRS

The Company's adoption of IFRS will require 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 that a company apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS1 does include certain mandatory exceptions and limited optional exemptions from this general requirement. The following are significant optional exemptions available under IFRS 1 the Company expects to apply in preparing its first financial statements in accordance with IFRS. Other available elections are either not applicable or not material to the Company. Note that these elections are subject to change as further work is completed.

- Business Combinations – the Company expects to elect to not restate any business combinations that have occurred prior to October 1, 2010.

- Foreign Currency Translation - on transition to IFRS, the Company can either recalculate translation differences on an IFRS basis as though it had always applied the IFRS requirements or reset the accumulated other comprehensive income on translation of net foreign operations to zero. The Company expects to reset it's accumulated other comprehensive income on translation of its net foreign operations to zero. The impact on the Company's balance sheet will be an increase of approximately $2.2 million in accumulated other comprehensive income and a corresponding increase in the Company's deficit of approximately $2.2 million on October 1, 2010, the beginning of the Company's comparative year.

Foreign Currency

Under Canadian GAAP ("CGAAP"), functional currency for a reporting entity is determined based on a number of criteria. Historically, the Company had determined that certain entities had a functional currency of Canadian dollars and the remaining had a functional currency of US dollars. However, effective October 1, 2010, the functional currency of the Company and its subsidiary LOREX Canada Inc. changed from the Canadian dollar to the U.S. dollar. Consequently, all entities within the consolidated group have the U.S. dollar as their functional currency. Also under CGAAP certain subsidiaries were considered to be fully integrated subsidiaries of the parent resulting in the usage of the temporal method for translation of the subsidiaries. Under IFRS, the reporting entity and each of its subsidiaries must determine the functional currency of the primary economic environment in which the entity operates. This assessment is made by first evaluating primary indicators which include the currency which mainly influences revenues, labour costs, material costs and other costs. Only if these indicators are mixed and the functional currency is not obvious, are secondary indicators considered. Other indicators are to be considered if there is a high degree of interdependence between two entities within the corporate structure such that a functional currency of one entity may determine the functional currency of another entity within the corporate structure. Management expects that the functional currency of all entities within the consolidated group will remain the U.S. dollar under IFRS.

Impairment of Assets

IFRS uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which is a discounted cash flow analysis). The Company currently uses a two-step approach: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying with fair values. The difference in methodology may potentially result in a difference in the asset impairment test results upon transition to IFRS.

The information above is provided to allow investors and other to obtain an understanding of the Company's IFRS changeover plan and the expected resulting effects on the Company's consolidated financial statements and operating performance measures. This information also reflects the Company's most recent assumptions and expectations and is based on the current progress of the Company's IFRS project which has not been completed as at the date of this MD&A. Circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

Consolidated Financial Statements

In October 2008, the CICA issued Section 1582, Business Combinations ("Section 1582"), concurrently with Section 1601, Consolidated Financial Statements ("Section 1601"), and Section 1602, Non-Controlling Interests ("Section 1602"). Section 1582, which replaces Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces Section 1600, carries forward the existing guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for fiscal years beginning on or after January 1, 2011 with earlier adoption permitted. Management is currently assessing the impact of the new standards on the Company's consolidated financial statements.

RISK FACTORS

The risks and uncertainties described below are not the only risk factors affecting the Company. Additional risks and uncertainties not presently known to the Company or that are currently deemed immaterial also may impair the Company's business operations. If any of the following risks actually occur, the business, results of operations and financial condition of the Company could be materially and adversely affected.

Economic and Political Environment

Economic factors that impact consumer spending patterns could deteriorate or remain unpredictable due to global economic volatility. These factors include, but are not limited to, political unrest, oil prices, continued high levels of unemployment, household debt, changes in interest rates, changes in inflation, changes in exchange rates and access to consumer credit. Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in short term operating and longer term strategic decisions. Despite these activities, one or more of these factors could negatively affect the Company's

sales and margins. Inflationary trends are unpredictable and changes in the rate of inflation or deflation could affect product prices and shipping costs, which in turn could have a negative impact on the results of the Company.

Business Risks

Although the market for the Company's products is expanding, its ability to remain competitive is dependent upon assessing changing markets and providing new products and functionality. The Company believes that its future success depends upon its ability to enhance current products and develop and introduce new product offerings with enhanced performance and functionality at competitive prices. While there can be no assurances that the Company will be able to develop new products to meet changes in the marketplace or that the sale of such new products will be profitable, the Company pays close attention to and anticipates changes in the market. Sales management meets regularly with its customers to identify current and anticipated end-user requirements.

Credit risk

Credit risk arises from the possibility that certain parties will be unable to discharge their obligations. The Company routinely assesses the financial strength of its customers and suppliers and mitigates against identified exposure primarily by lowering credit limits and/or reducing or ending business activity with high risk accounts.

Customer concentration risk

The Company is dependent on a few customers for the majority of its product sales. For the nine month period ended June 30, 2011, five customers accounted for approximately 50% of total sales (2010 – 43%; 2009 – 57%). Management continues to add to its customer base in order to reduce its customer concentration risk. If any significant customer discontinues its relationship with the Company for any reason, or significantly reduces expected purchase commitments for the Company's products, the business prospects and corresponding financial condition could be materially adversely affected.

Foreign exchange risk

The Company generates approximately 89% of its revenues and pays for substantially all of its product purchases in U.S. dollars. Effective October 1, 2010, the U.S. dollar is now the functional currency of all entities within the consolidated group. As a result, the Company reports its financial results in U.S. dollars. However, certain expenses incurred by the Company, primarily salaries to Canadian employees and other operating costs, are paid in Canadian dollars, and these exceeded Canadian dollar denominated revenues in 2011 and 2010. This creates an exposure to Canadian dollar fluctuations. Further, the Company translates its Canadian

subsidiaries' balance sheets at the period-end rate. Changes in the value of the Canadian dollar versus the U.S. dollar impacts the financial results reported by the Company. A weakening of the U.S. dollar against the Canadian dollar would result in a relative increase in the cost of Canadian denominated net expenditures. A 10 percent change in exchange rate of the Canadian dollar against the U.S. dollar at June 30, 2011 would have increased/decreased equity and net earnings by approximately $311. This analysis assumes that all other variables remain constant.

The Company does not currently use any financial instruments to hedge against currency risk, but may do so in the future.

Liquidity risk

In maintaining a sufficient liquidity level, the Company manages timely accounts receivable collection and inventory turnover to facilitate cash flows and to sustain excess availability. In an environment of economic uncertainty, the Company is subject to an increased risk of customer payment defaults or more delayed customer payment patterns which could result in a reduced borrowing base and lower availability. The Company actively assesses the creditworthiness of its customers and adjusts credit limits where it considers appropriate. In some cases, this may limit the level of shipments the Company will make to a customer, which would also contribute to reduced cash flow and availability due to lower revenue.

Interest rate risk

The Company is exposed to interest rate risks arising from the $10 million revolving credit facility that bears interest at U.S. floating base rate plus 1.75% or the Canadian floating prime rate plus 1.75% for loan balances denominated in U.S. dollars or Canadian dollars, respectively. Unfavorable changes in the applicable interest rate may result in an increase in interest expense. The Company does not currently use derivative instruments to reduce its exposure to interest rate risk, but may do so in the future. At June 30, 2011, the Company had approximately $4.4 million outstanding under the revolving credit facility.

Cash flow sensitivity analysis on variable credit facilities

	NET EARNINGS	
	100 basis points increase	100 basis points decrease
Nine month period ended June 30, 2011	$ 11	$ (11)

Financing Risks

On December 22, 2009, the Company refinanced its bank indebtedness with a new lender. The new credit facility of $10 million has a three-year term expiring on December 12, 2012. The amount available for borrowing under the facility is subject to certain financial and non-financial covenants, as defined by the agreement. The new credit facility imposes a debt covenant, which consists of a quarterly minimum fixed charge coverage ratio. At June 30, 2011, the Company was in compliance with this covenant and expects to meet this covenant during 2011 on the basis of its current forecast. In addition, the Company's borrowings are limited to a borrowing base amount that is calculated using the accounts receivable of its North American operating companies and the inventory of LOREX Corporation. The borrowing base is subject to certain reserves and limitations. The Company expects to have sufficient availability during 2011 on the basis of its current borrowing base formula, although there is a risk that changes to the borrowing base formula or lower than forecasted results would limit the Company's ability to fund operations.

Supplier and Product Risks

The Company purchases its products from a number of select manufacturers in Asia. The Company relies on these sources for product development, product reliability, timely delivery and future product warranty support. The earthquake in Japan has created a risk that delivery of key components could be delayed. To date, the Company has made alternate arrangements, when necessary, so that operations have not been adversely affected. The Company will continue to monitor developments in Japan. If a supplier were to discontinue or restrict the supply, significantly alter its payment terms or interrupt servicing repairs, the Company would attempt to replace the supplier in a timely manner. If it could not do so, the Company's business may be adversely affected by the resulting product manufacturing and delivery delays. In addition, the failure of the Company's products to perform to customer/consumer expectations could give rise to product warranty claims and/or returns. To minimize this production risk, the Company contracts with a number of sources to perform its manufacturing requirements and performs quality assurance testing in Asia and in North America. In addition to these risks, the Company relies on its customers honouring their purchase orders. Should a customer fail to honour its order, the Company would be required to sell its overstock to different customers. To mitigate this risk, the Company sources product that can be sold to different customers in a variety of channels.

Competitor and Industry Risks

The Company expects that additional competition may develop from existing surveillance/security companies and from new entrants as demand for product expands and the market for these products becomes more established. Certain of the Company's competitors have greater financial resources than the Company and may

be able to sustain recurring losses to establish market share at the Company's expense. Competition may force price reductions affecting gross margins. The Company must continue to innovate with newer technology to maintain and expand its customer base. The demand for security solutions by small business in a challenging economic environment may affect the revenues of the Company.

Reliance on Key Employees and Third Party Relationships

The Company's ability to develop and sell its products will depend, to a great extent, on its ability to attract and retain highly qualified personnel and to develop and maintain third party relationships for assistance in the conduct of research efforts, product development and manufacturing and sales support. Competition for such personnel and relationships is intense. The Company is highly dependent on the principal members of its management staff as well as its third party relationships, the loss of whose services might impede the achievement of development objectives. The persons working with the Company are affected by a number of influences outside of the control of the Company. The loss of key employees and/or key collaborators may affect the speed and success of product development. Although the Company believes that its collaborative partners will have an economic motivation to commercialize the Company's product included in any collaborative agreement, the amount and timing of resources diverted to these activities generally is expected to be controlled by the third party.

Patents and Technology Risk

The Company has risk related to infringing the rights of third parties including patents. The Company may be required to obtain indemnities from third parties or licenses under patents or other proprietary rights of third parties. No assurance can be given that any indemnities or licenses required under such patents or proprietary rights will be available on terms acceptable to the Company. If the Company does not obtain such indemnities or licenses, it could encounter delays in introducing one or more of its products to the market while it attempts to design around such patents, or could find that the development, manufacture or sale of products requiring such licenses could be foreclosed. In addition, the Company could incur substantial costs in defending itself in claims brought against the Company on such patents.

In addition, while the Company is actively involved in the design and development of innovative products. There is a risk that others will develop products featuring technologies which may undermine the Company's offerings which could delay or reduce sales opportunities.

DERIVATIVE INSTRUMENTS AND OFF-BALANCE SHEET ARRANGEMENTS

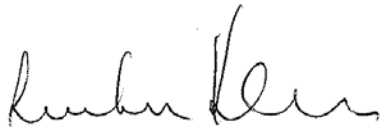
As at June 30, 2011, the Company was not party to any derivative instruments or off-balance sheet arrangements.

OUTLOOK

Fiscal 2011 continues to demonstrate strong revenue growth, positive EBITDA and profitability. Our outlook for the remainder of fiscal 2011 and beyond is positive as we continue to expand our product offerings.

ADDITIONAL INFORMATION

Further information on the Company is available on SEDAR at www.sedar.com.



Reuben Klein
Chief Executive Officer

Eric Miller
Chief Financial Officer

August 29, 2011