SECOND QUARTER REPORT

FISCAL 2015

avigilon

AVIGILON CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations of Avigilon Corporation ("Avigilon", the "Company", "we", "us" or "our"), on a consolidated basis, as at and for the three and six months ended June 30, 2015. It should be read in conjunction with our unaudited condensed consolidated interim financial statements and accompanying notes for the three and six months ended June 30, 2015 and with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2014 and the MD&A thereon (the "Financial Statements"). All financial information presented in this MD&A was prepared in accordance with International Financial Reporting Standards ("IFRS"), unless otherwise stated.

This MD&A has been prepared as of July 29, 2015. All amounts are expressed in thousands of Canadian dollars ("CAD"), except with respect to per share amounts and numbers of shares and except as otherwise stated.

Additional information relating to Avigilon, including Avigilon's Annual Information Form dated March 3, 2015, can be found under Avigilon's profile on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A, including all statements that are not historical facts, contain and constitute forward-looking information or forward-looking statements as defined under applicable securities laws (collectively, "forward-looking statements"). Forward-looking statements normally contain words like 'believe', 'expect', 'anticipate', 'plan', 'intend', 'continue', 'estimate', 'may', 'will', 'should', 'ongoing' and similar expressions, and within this MD&A include, without limitation, statements (express or implied) respecting: Avigilon's mission, strategies and objectives; projected revenues; trends, opportunities, growth, and Avigilon's competitive advantages within its industry and in certain markets; Avigilon's product and research and development ("R&D") plans; new product functionality and suitability; operating expenses; capital expenditures; seasonality of revenues and expenses; the availability of working capital and any required financing; the ongoing ability of Avigilon to access the funds under the Credit Facility (as defined below) and the intended uses of the funds available under the Credit Facility; fluctuations in applicable tax rates, foreign exchange rates, and interest rates; the availability of tax credits; the addition and retention of personnel; the expansion and improvement of Avigilon's reseller network; increases to brand awareness and vertical and market penetration; strategies respecting intellectual property protection and licensing; planned changes to accounting policies and standards; testing of internal controls over financial reporting; the expansion, development, and adequacy of Avigilon's real property facilities, including in Plano, Texas; the expected closing date for the purchase of 555 Robson (as defined below) and the expected date of transition to 555 Robson; future dividends; and potential conflicts of interest.

Forward-looking statements are not guarantees of future performance, actions, or developments and are based on management's expectations and assumptions regarding historical trends, current conditions, and expected future developments, as well as other factors that management believes are appropriate in the circumstances. Management has based the forward-looking statements on estimates and assumptions that it believed were reasonable at the time, including, without limitation, assumptions that: Avigilon will be able to successfully execute its mission, strategies and objectives; Avigilon will be able to successfully manage cash flow, operating and capital expenses, foreign exchange risk, interest rate risk, and working capital; Avigilon will, on an ongoing basis, remain in good standing under the terms of the Credit Facility; future financing will be available to Avigilon on favourable terms when and if required; Avigilon will keep pace with or outpace the growth, direction, and technological advancement in its industry; Avigilon will continue to increase its global market share; industry data and projections obtained from external sources are accurate and reliable; Avigilon will be able to design, manufacture and market new products and enhance its existing product lines; Avigilon's new products will function as intended and will be suitable for the intended end users; Avigilon will be able to maintain, improve, and grow its reseller network; Avigilon will be able to attract and retain qualified personnel; foreign jurisdictions will not impose unexpected risks; products and parts will be available from suppliers on a timely basis and on favourable terms; Avigilon will be able to successfully integrate businesses, intellectual property, products, and technologies that it may acquire, if any; Avigilon will be able to expand, manage, and develop its manufacturing facilities, including at Plano, Texas; the closing of the purchase of 555 Robson and Avigilon's transition into 555 Robson will occur on the timelines currently contemplated; Avigilon will maintain or enhance its accounting policies and standards and internal controls and procedures over financial reporting; fluctuations in applicable tax rates will not have a material impact on Avigilon; certain tax credits will remain available to Avigilon; Avigilon will not face any material unexpected costs related to product liability or warranties; Avigilon's protection of its intellectual property is sufficient and its technology does not materially infringe third party intellectual property rights; Avigilon will continue to generate revenues from patent licensing; Avigilon will be able to obtain necessary third party licenses on favourable terms; and Avigilon will not become involved in unexpected material litigation.

Actual results could, however, be substantially different due to the risks and uncertainties associated with and inherent to Avigilon's business, as more particularly described in the "Risk Factors" section of Avigilon's Annual Information Form dated March 3, 2015, which is available under Avigilon's profile on SEDAR at www.sedar.com. Additional risks and uncertainties applicable to the forward looking statements set out herein include, but are not limited to: fluctuations in Avigilon's quarterly operating results; fluctuations in Avigilon's operating and capital expenses; fluctuations in foreign exchange rates and interest rates that negatively impact Avigilon; increased competition from other companies; the inaccuracy of industry data and projections relied upon by Avigilon; supply chain interruptions; R&D efforts may not result in the creation of new or enhanced products in a timely or cost-effective fashion or at all; Avigilon's resellers' and other partners' unwillingness to initiate or continue doing business with Avigilon on favourable terms or at all; Avigilon's marketing efforts may not result in increased vertical and market penetration; Avigilon's new products may not function as intended or be suitable for the end users they are intended for; unknown or unexpected defects with Avigilon's products that are not correctable in a timely or cost-effective fashion or at all; unforeseen events or changes to Avigilon's business or financial situation that could cause it to no longer be able to access the funds available under the Credit Facility; necessary additional financing may not be available on favourable terms or at all; inability to recruit and retain qualified personnel; any acquired businesses, intellectual property, products, and technologies may not be successfully integrated in a timely or cost-effective fashion or at all, and the anticipated benefits of such acquisitions may never be realized; legal or regime changes, including changes to import and export requirements of foreign jurisdictions; political risk; war, terrorism, rebellion, revolt, protests, or other civil conflict; unionization, strikes or labour unrest; the global economic climate; general market trends; Avigilon's intellectual property may not be sufficiently protected against third party infringement or misappropriation; licenses to technology, intellectual property and software from third parties may be unavailable on favourable terms or at all; Avigilon's products may materially infringe a third party's intellectual property rights; the ongoing ability and desirability of licensees to continue paying Avigilon patent licensing royalties on a timely basis or at all; material litigation may arise; IT or product security breaches; Avigilon's real property facilities may not be retained on favourable terms or at all; the closing conditions for the purchase of 555 Robson, including without limitation necessary regulatory approvals and registrations, may not be met in a timely fashion or at all; fire, flood, earthquake, or other natural events; failure to obtain necessary permits, certifications, and authorizations; foreign currency fluctuations; share price volatility; risks as a result of actions of activist shareholders; deficiencies in accounting policies or internal controls and procedures over financial reporting; dilution; insufficiency of insurance; unavailability of certain tax credits; and unexpected tax liabilities. Although Avigilon has attempted to identify factors that may cause actual actions, events or results to differ materially from those disclosed in the forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, predicted, estimated or intended. Also, many of the factors are beyond the control of Avigilon.

Accordingly, readers should not place undue reliance on forward-looking statements. Avigilon undertakes no obligation to reissue or update any forward-looking statements as a result of new information or events after the date hereof except as may be required by law. All forward-looking statements contained in this MD&A are qualified by this cautionary statement.

TRADEMARKS

AVIGILON, the AVIGILON logo, AVIGILON CONTROL CENTER, ACC, ACC ES HD, HD MULTISENSOR, HD PRO, HIGH DEFINITION STREAM MANAGEMENT (HDSM), and RIALTO are trademarks of Avigilon. Other product names mentioned herein may be the trademarks of their respective owners. The absence of the symbols ™ and ® in proximity to each trademark in this MD&A or at all is not a disclaimer of ownership of the related trademark.

NON-IFRS FINANCIAL MEASURES

In addition to results reported in accordance with IFRS, the Company uses certain non-IFRS financial measures as supplemental indicators of its financial and operating performance. These non-IFRS financial measures include Adjusted EBITDA[1], Adjusted Earnings, Adjusted Earnings per Share ("Adjusted EPS") and Cash from operations before changes in non-cash working capital. The Company believes that these supplementary financial measures reflect the Company's ongoing business in a manner that allows for meaningful period-to-period comparisons and analysis of trends in its business.

The Company defines Adjusted EBITDA as earnings before deducting interest, taxes, depreciation, amortization, foreign exchange gain or loss, business acquisition-related costs, non-recurring legal costs and share-based payments. We believe that Adjusted EBITDA is a useful measure, as it provides an indication of the operational results of the business prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset amortization, foreign exchange gain or loss, business acquisition-related costs, non-recurring legal costs, and share-based payments.

The Company defines Adjusted Earnings as earnings before share-based payments, foreign exchange gain or loss, business acquisition-related costs, non-recurring legal costs, amortization of acquired intangibles and related tax effects. Adjusted EPS is calculated using both the basic and diluted weighted average shares outstanding and does not represent actual earnings per share attributable to shareholders. We believe that the disclosure of Adjusted Earnings and Adjusted EPS allows investors to evaluate the operational and financial performance of the Company's ongoing business using the same evaluation measures that its management uses, and is therefore a useful indicator of the Company's performance or expected performance of recurring operations.

The Company defines Cash from operations before changes in non-cash working capital as cash from operating activities excluding working capital adjustments, interest paid and received and amounts paid towards income taxes. The Company considers Cash from operations before changes in non-cash working capital to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and to repay debt, if applicable.

These non-IFRS measures do not have any standardized meaning prescribed by IFRS, and other companies may calculate these measures differently. The presentation of these non-IFRS measures is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

[1] Earnings Before Interest, Tax, Depreciation and Amortization

RECENT CORPORATE EVENTS

Changes to the Board and Executive Team

On April 9, 2015, Mike McKnight, former Senior Vice President and Investment Advisor for Raymond James Inc., was appointed to the Company's Board of Directors (the "Board").

On May 12, 2015, Danny Kam resigned as Avigilon's Executive Vice President of Engineering. Avigilon's Chief Technology Officer and Senior Vice President, Dr. Mahesh Saptharishi, continues to lead the engineering team.

On June 25, 2015, Ric Leong was promoted to Avigilon's Chief Financial Officer, with effect on July 1, 2015. Mr. Leong previously served as Avigilon's Chief Accounting Officer and Senior Vice President. Mr. Leong succeeded Wan Jung, who continues to serve on the Board.

New Credit Facility

On April 7, 2015, the Company entered into a new multi-tranche US Dollar ("USD") $200 million senior secured syndicated credit facility (the "Credit Facility"). The Credit Facility has a three year term and includes a USD$100 million multi-currency revolving acquisition facility (the "Acquisition Facility"), a USD$60 million multi-currency revolving line (the "Revolver"), and a USD$40 million real estate term loan (the "Real Estate Loan"). All debts, liabilities and obligations of the Company under the Credit Facility are secured by a first-ranking security interest over all present and future assets, property and undertakings of the Company and its subsidiaries. The Credit Facility replaced the Company's previous undrawn $12 million credit facility. The Company has drawn USD$80.3 million from the Acquisition Facility in order to retroactively fund the December 2014 acquisition of the entire patent portfolio and the patent licensing program of ObjectVideo, Inc. Transaction costs related to the Credit Facility of $1.6 million have been capitalized and are being amortized over the three year term of the Credit Facility.

Normal Course Issuer Bid

On May 12, 2015, the Company commenced a normal course issuer bid (the "NCIB") whereby it may purchase for cancellation up until May 11, 2016 up to 3,789,740 Avigilon common shares, or approximately 10% of the Company's public float as of May 5, 2015. During the three months ended June 30, 2015, the Company purchased and cancelled 2,146,200 such common shares for $39.5 million in aggregate (which equals an average price of $18.39 per common share).

Corporate Highlights

On April 6, 2015, the Company showcased the security industry's first single-sensor 7K (30 megapixel ("MP")) security camera at the ISC West 2015 tradeshow in Las Vegas, NV, USA. The Company also announced the release of the 6K (24MP) high definition ("HD") Pro camera.

On April 14, 2015, the Company announced the addition of its self-learning video analytics technology to its HD Pro camera series, available in 4K (8MP) and 5K (16MP) resolutions.

On May 1, 2015, the Company announced a new Centers of Excellence initiative to focus on research and development at three of its North American office locations: Vancouver, Boston and Dallas.

On June 16, 2015, the Company announced that its Chief Technology Officer and Senior Vice President, Dr. Mahesh Saptharishi, ranked #1 on the IFSEC Global list of the Top 50 Most Influential People in Security and Fire, 2015. The list was determined by a panel of industry experts and by public voting.

SELECTED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for the periods indicated, and has been derived from the Financial Statements and should be read in conjunction with the Financial Statements.

Financial Performance

	Three months ended June 30,		Change	Six months ended June 30,		Change
	2015	2014	%	**2015**	2014	%
Revenue	**89,794**	65,181	**38%**	**165,215**	120,931	**37%**
Cost of sales	**37,755**	29,137	**30%**	**68,437**	53,090	**29%**
Gross margin	**52,039**	36,044	**44%**	**96,778**	67,841	**43%**
Operating expenses	**44,505**	30,257	**47%**	**84,504**	53,856	**57%**
Operating income	**7,534**	5,787	**30%**	**12,274**	13,985	**-12%**
Net income	**2,258**	2,779	**-19%**	**13,319**	10,548	**26%**
Basic net income per share	**0.05**	0.06		**0.29**	0.24	
Diluted net income per share	**0.05**	0.06		**0.28**	0.23	

Financial Position

	June 30, 2015	December 31, 2014
Total assets	**415,956**	334,627
Total liabilities	**129,090**	33,548
Total non-current financial liabilities[1]	**74,746**	—

[1] Non-current financial liabilities represent the long-term portion of long-term debt, excluding deferred transaction costs.

OVERALL PERFORMANCE

The second quarter of 2015 was another strong period for Avigilon, continuing our trend of profitable year-over-year revenue growth. Revenue for the three months ended June 30, 2015 was $89.8 million, which was a 38% increase over the same period in 2014. For the six months ended June 30, 2015, Avigilon's revenue was $165.2 million, an increase of 37% over the same period in 2014. For the three and six months ended June 30, 2015, on a constant currency basis, revenue grew by 26%. Revenue growth is primarily attributed to increased sales volume as we continue to increase our global market share. Operating expenses increased by 47% in the three months ended June 30, 2015 over the same period in 2014, and by 57% in the six months ended June 30, 2015 over the same period in 2014. The increase in operating expenses is driven by our continued investment to support growth, primarily due to increasing full-time employees worldwide in all departments from 696 as at December 31, 2014 to 886 as at June 30, 2015. Net income increased for the six months ended June 30, 2015 when compared to the same periods in 2014, benefiting from past investments in growth initiatives and greater economies of scale.

On the innovation front, as of the date of this MD&A, we have announced a number of key product launches in 2015, including the following additions to our product portfolio:

- *Avigilon Control Center (“ACC”) Edge Solution (“ES”) HD recorder* - The ACC ES HD recorder delivers complete support for HD cameras up to 7K (30 MP) resolution, full performance of the ACC software and powerful remote access capabilities in a compact design. The ACC ES HD Recorder is ideal for centralized monitoring of critical infrastructure. It offers intelligent monitoring deployed onsite at the network edge, the ability to store high amounts of HD video data remotely and the ability to view live or recorded video from long distances upon demand;

- *HD Multisensor camera* - The HD Multisensor camera is designed to offer complete coverage of wide areas with the simultaneous ability to digitally zoom in on any movement that occurs within the field-of-view. The HD Multisensor camera provides the flexibility of having up to four cameras positioned at one location using a single Ethernet cable, housing and camera license, thereby reducing installation time and maintenance costs;

- *HD Pro camera series with self-learning video analytics* - Avigilon’s innovative self-learning video analytics technology is designed to instantly detect and learn the monitored scene upon installation, adapting to changes and movement patterns without complex manual calibration;

- *ACC 5.6* - ACC software offers intelligent search capabilities for Avigilon’s portfolio of analytics - enabled HD devices, including the 4K (8 MP) and 5K (16 MP) HD Pro camera series, 1-3 MP HD Dome and HD Bullet camera series and Rialto analytics devices; and

- *7K and 6K HD Pro cameras* - The 7K (30 MP) and 6K (24 MP) HD Pro camera provides clear image detail and maximum scene coverage while minimizing bandwidth and storage consumption. The 7K and 6K HD Pro cameras support our patented High Definition Stream Management 2.0 technology.

As of the date of this MD&A, Avigilon holds 273 United States and international issued patents, and 279 United States and international pending applications.

SUMMARY OF QUARTERLY RESULTS

The following is a selected summary of quarterly results for the last eight quarters to June 30, 2015:

	Selected Quarterly Results (unaudited)							
	2013		2014				2015	
	Q3	Q4	Q1[2]	Q2	Q3	Q4	Q1	Q2
Revenue	51,157	55,943	55,750	65,181	70,972	79,508	75,421	89,794
Cost of sales	24,006	23,456	23,953	29,137	30,843	33,770	30,682	37,755
Gross margin	27,151	32,487	31,797	36,044	40,129	45,738	44,739	52,039
Operating expenses	16,190	23,938	23,599	30,257	28,457	33,645	39,999	44,505
Operating income	10,961	8,549	8,198	5,787	11,672	12,093	4,740	7,534
Net income	8,622	6,744	7,769	2,779	11,622	12,965	11,061	2,258
Basic net income per share	0.22	0.16	0.18	0.06	0.25	0.28	0.24	0.05
Diluted net income per share	0.21	0.16	0.17	0.06	0.25	0.27	0.23	0.05
Adjusted EBITDA[1],[3]	12,346	11,953	11,521	9,163	16,381	17,217	11,233	15,386
Total assets	108,677	188,939	196,461	298,515	317,223	334,627	355,234	415,956
Total liabilities	18,011	23,231	20,906	24,463	29,089	33,548	32,069	129,090
Total non-current financial liabilities[4]	—	—	—	—	—	—	—	74,746

[1] Adjusted EBITDA is not an IFRS financial measure. Please see the "Non-IFRS Financial Measures" section for more information.

[2] The comparative figures have been adjusted to reflect the impact of revising preliminary estimates of the purchase price allocation relating to the acquisition of VideoIQ, Inc. ("VideoIQ"). This resulted in an increase in amortization of acquired intangibles of $0.4 million and a decrease in the related tax effects of $0.1 million, resulting in a net reduction of $0.3 million in net income from that which was previously reported, as well as an increase of $0.1 million in total liabilities and an increase in total assets of $0.2 million.

[3] The comparative figures have been adjusted to reflect the revised definition of Adjusted EBITDA as defined in the "Non-IFRS Financial Measures" section. Previously, Adjusted EBITDA was defined as earnings before deducting interest expense, taxes, depreciation, amortization, foreign exchange gain or loss and share-based payments. The revised definition of Adjusted EBITDA is defined as earnings before deducting interest, taxes, depreciation, amortization, foreign exchange gain or loss, business acquisition-related costs and non-recurring legal costs and share-based payments.

[4] Non-current financial liabilities represent the long-term portion of long-term debt, excluding deferred transaction costs.

DISCUSSION OF OPERATIONS

Revenue

The Company operates in one segment, in which it develops, manufactures, markets and sells HD network video management software, MP cameras, access control and video analytics products (collectively, "Avigilon's End-to-End Solutions") for the global security market.

Avigilon's revenue is derived from the sale of Avigilon's End-to-End Solutions. Avigilon's End-to-End Solutions are promoted by Avigilon sales staff and sold to a global network of dealers and integrators.

Revenue growth continues to reflect increased product sales volumes worldwide, resulting from greater end-user adoption in certain existing markets, our entry into new markets globally and sales of new products introduced throughout the year. This is consistent with our focus on revenue growth to establish Avigilon as a leading innovative global technology provider.

Revenue by Geographic Region

Revenue is earned in six main regions: the United States, EMEA, the United Kingdom, Canada, Asia Pacific and Latin America.

	Three months ended June 30,			**Six months ended June 30,**		
	2015	2014	% Change	**2015**	2014	% Change
United States	**54,123**	35,038	54%	**95,734**	63,401	51%
EMEA	**19,342**	14,783	31%	**36,852**	27,926	32%
United Kingdom	**4,328**	4,514	-4%	**8,676**	9,218	-6%
Canada	**4,219**	4,244	-1%	**8,905**	8,355	7%
Asia Pacific	**5,544**	4,777	16%	**9,567**	8,001	20%
Latin America	**2,238**	1,825	23%	**5,481**	4,030	36%
Total revenues	**89,794**	65,181	38%	**165,215**	120,931	37%

Our strong year-over-year revenue growth resulted from increased contributions in multiple regions. For the three months ended June 30, 2015, revenue was strong across most regions, with year over year revenue growth over the same period between 16% and 54%; except for the United Kingdom and Canada, where revenues decreased by 4% and 1%, respectively.

For the six months ended June 30, 2015, revenue was strong across most regions, with year-over-year revenue growth over the same period between 7% and 51% in all six of the Company's target geographic regions, except for the United Kingdom where revenues decreased by 6%.

Quarterly revenue over the last eight quarters was as follows:

Selected Quarterly Results (unaudited)

	2013		2014				2015	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
United States	27,437	29,258	28,363	35,038	39,751	43,433	41,611	54,123
EMEA	10,564	13,253	13,143	14,783	15,505	18,832	17,510	19,342
United Kingdom	3,791	3,999	4,704	4,514	5,795	4,530	4,348	4,328
Canada	4,462	3,892	4,111	4,244	4,433	5,064	4,686	4,219
Asia Pacific	2,539	2,667	3,224	4,777	3,006	4,719	4,023	5,544
Latin America	2,364	2,874	2,205	1,825	2,482	2,930	3,243	2,238
Total revenues	51,157	55,943	55,750	65,181	70,972	79,508	75,421	89,794

Revenues have historically experienced some seasonality, with second and fourth quarters generally being the Company's strongest quarters of the year. The second quarter strength generally coincides with the ramp-up of building and development cycles for the year, while the fourth quarter typically benefits from increased spending as annual budget cycles come to a close. Revenue in the second quarter of 2015 is consistent with this trend. Revenue in the second quarter of 2015 also reflects the impact of foreign exchange. A large portion of our revenue is denominated in USD, British Pound Sterling or Euros, depending on the region, although our exposure to the USD is the most significant. For the remaining year, we estimate that every $0.01 change in the exchange rate of CAD per USD will have an estimated $0.8 million impact on our Adjusted EBITDA.

Cost of Sales

Cost of sales is comprised of the cost of materials and components, manufacturing, labour and overhead costs, inventory obsolescence provisions and write-offs, warranty costs, product transportation costs, and other supply chain management costs. Depreciation of assembly equipment and tooling is also included in cost of sales. To the extent that our sales increase, we expect cost of sales to also increase proportionately.

Cost of sales for the three months ended June 30, 2015 increased by $8.6 million, or 30% compared to the second quarter in 2014, driven by the year-over-year increase in sales volume. As a percentage of revenue, cost of sales for the three months ended June 30, 2015 decreased by 3% compared to the same prior year period.

Cost of sales for the six months ended June 30, 2015 increased by $15.3 million, or 29% compared to the same period in 2014, driven by the year-over-year increase in sales volume. As a percentage of revenue, cost of sales for the six months ended June 30, 2015 decreased by 3% compared to the same prior year period.

	Three months ended June 30,		**Six months ended June 30,**	
	2015	2014	**2015**	2014
Cost of sales	**37,755**	29,137	**68,437**	53,090
% of revenue	**42%**	45%	**41%**	44%

Quarterly cost of sales over the last eight quarters was as follows:

	2013		2014				2015	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Cost of sales	24,006	23,456	23,953	29,137	30,843	33,770	30,682	37,755
% of revenue	47%	42%	43%	45%	43%	42%	41%	42%

The decreasing cost of sales as a percentage of revenue is largely due to a combination of product mix moving towards more profitable products, lower costs resulting from the impact of greater economies of scale on purchasing, and improved manufacturing efficiencies. The decrease also includes the impact of the weakening of the Canadian dollar during these periods.

Gross Margins

Gross margin for the three and six months ended June 30, 2015 increased by $16.0 million and $28.9 million, respectively, over the same periods in 2014. As a percentage of revenue, gross margin for the three and six months ended June 30, 2015 increased by 3% over the same periods in 2014. The increase in gross margin percentage largely reflects the ongoing effects of greater purchasing power, economies of scale and improved manufacturing efficiencies. Gross margin percentages are also impacted quarterly by changes in product mix and foreign exchange rates; this quarter the impact of these were favourable.

	Three months ended June 30,		**Six months ended June 30,**	
	2015	2014	**2015**	2014
Gross margin	**52,039**	36,044	**96,778**	67,841
% of revenue	**58%**	55%	**59%**	56%

Quarterly gross margin percentages over the last eight quarters were as follows:

	2013		2014				2015	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
% of revenue	53%	58%	57%	55%	57%	58%	59%	58%

As with cost of sales, quarterly gross margin percentage has generally improved throughout the past two years, reflecting the lower cost of sales percentages discussed above.

Sales and Marketing

Sales and marketing expenses consist primarily of salaries and related expenses, advertising, trade shows and other brand-building activities.

Sales and marketing expenses for the three months ended June 30, 2015 increased by $4.2 million or 24% over the same period in 2014. For the six months ended June 30, 2015, sales and marketing expenses increased by $13.0 million or 43% compared with the same period in 2014. The increase reflects investments in the Company's global sales and marketing team and initiatives, which management believes will drive continued revenue growth.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Sales and marketing(1)	**22,039**	17,806	**42,960**	29,974
% of revenue	**25%**	27%	**26%**	25%

(1) The comparative figures have been adjusted to reflect the classification of amortization and depreciation as a separate line item in the condensed consolidated statements of net income and comprehensive income.

Quarterly sales and marketing expenses over the last eight quarters were as follows:

	2013		2014				2015	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales and marketing(1)	9,853	13,180	12,168	17,806	14,748	17,693	20,921	22,039
% of revenue	19%	24%	22%	27%	21%	22%	28%	25%

(1) The comparative figures have been adjusted to reflect the classification of amortization and depreciation as a separate line item in the condensed consolidated statements of net income and comprehensive income.

Sales and marketing expenses as a percentage of revenue will fluctuate from quarter to quarter due to the timing of trade shows and marketing initiatives.

Research and Development

R&D expenses consist primarily of salaries and related expenses for software, firmware and hardware engineering and technical personnel, as well as materials and consumables used in product development. The Company incurs most of its R&D expenses in Canada and receives Canadian Scientific Research and Experimental Development ("SRED") investment tax credits ("ITCs") for certain eligible expenditures. ITCs are netted against the Company's R&D expenses.

For the three and six months ended June 30, 2015, gross R&D expenditures increased $0.8 million and $3.2 million, respectively, over the same periods in 2014. The year-over-year increase in gross R&D expense is consistent with the Company's ongoing plan to further enhance and expand upon its product offerings.

Net R&D expenses for the three and six months ended June 30, 2015 decreased by $1.1 million and $2.0 million, respectively, over the same periods in 2014. Decreases in net R&D expenses are driven primarily by increased capitalized development costs. These costs will be capitalized until such time as the related products are commercially launched and will then be amortized over the expected useful life of such products.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Gross R&D expense	**7,225**	6,390	**14,568**	11,382
Investment tax credits	**(490)**	(1,013)	**(1,613)**	(1,723)
Capitalized development	**(3,431)**	(977)	**(7,907)**	(2,590)
R&D expense	**3,304**	4,400	**5,048**	7,069
Gross R&D expense % of revenue	**8%**	10%	**9%**	9%

Gross R&D expenses have been growing steadily over the last eight quarters, as follows:

	2013		2014				2015	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Gross R&D expense	3,222	3,733	4,992	6,390	6,522	6,785	7,343	7,225
Investment tax credits	(911)	(997)	(710)	(1,013)	(1,117)	(523)	(1,123)	(490)
Capitalized development	—	—	(1,613)	(977)	(2,444)	(2,385)	(4,476)	(3,431)
R&D expense	2,311	2,736	2,669	4,400	2,961	3,877	1,744	3,304
Gross R&D expense % of revenue	6%	7%	9%	10%	9%	9%	10%	8%

R&D expenses are incurred in advance of the related revenue from new products. Gross R&D expense varies depending on the Company's product development projects.

General and Administrative

General and administrative ("G&A") expenses consist of costs relating to wages, information systems, customer and technical support, legal and finance functions, professional fees, insurance, facilities and other corporate expenses.

G&A expenses for the three and six months ended June 30, 2015 increased by $8.2 million and $14.1 million, respectively, compared to the same periods in 2014. As a percentage of revenue, G&A expenses for the three and six months ended June 30, 2015 increased by 7% and 5%, respectively, to 17% of revenue over the same periods in 2014.

The year-over-year increase is largely due to additional personnel and their related expenses to support our business growth. The Company expects its G&A expenses to increase in the near term as it continues to invest in infrastructure to support planned growth, but believes these expenses will increase at a slower rate than revenue over time.

	Three months ended June 30,		**Six months ended June 30,**	
	2015	2014	**2015**	2014
G&A[(1)]	**14,827**	6,619	**28,060**	13,990
% of revenue	**17%**	10%	**17%**	12%

[(1)] The comparative figures have been adjusted to reflect the classification of amortization and depreciation as a separate line item in the condensed consolidated statements of net income and comprehensive income.

Quarterly G&A expenses over the last eight quarters were as follows:

	2013		**2014**				**2015**	
	Q3	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
G&A[(1)]	3,757	6,706	7,371	6,619	8,997	10,282	13,233	14,827
% of revenue	7%	12%	13%	10%	13%	13%	18%	17%

[(1)] The comparative figures have been adjusted to reflect the classification of amortization and depreciation as a separate line item in the condensed consolidated statements of net income and comprehensive income.

The quarterly increase in G&A expense as a percentage of revenue has been fairly consistent through to the fourth quarter of 2014, as the Company has been steadily investing in the support function of the organization. The substantial increase in the fourth quarter of 2013 and the first and second quarters of 2015 was primarily due to a significant increase in staffing.

Amortization and Depreciation

Amortization and depreciation for three and six months ended June 30, 2015 increased by $2.9 million and $5.6 million, respectively, compared to the same periods in 2014. The increase is primarily due to amortization of intangible assets acquired in the fourth quarter of 2014 and first quarter of 2015.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Amortization and depreciation[1]	**4,335**	1,432	**8,436**	2,823
% of revenue	**5%**	2%	**5%**	2%

[1] The comparative figures have been adjusted to reflect the classification of amortization and depreciation as a separate line item in the condensed consolidated statements of net income and comprehensive income. The reclassified amortization and depreciation amounts exclude depreciation amounts included in cost of sales.

Quarterly amortization and depreciation over the last eight quarters was as follows:

	2013		2014				2015	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Amortization and depreciation[1]	269	1,316	1,391	1,432	1,751	1,793	4,101	4,335
% of revenue	1%	2%	2%	2%	2%	2%	5%	5%

[1] The comparative figures have been adjusted to reflect the classification of amortization and depreciation as a separate line item in the condensed consolidated statements of net income and comprehensive income. The reclassified amortization and depreciation amounts exclude depreciation amounts included in cost of sales.

Increases in amortization and depreciation in 2015 are driven by additions of acquired intangible assets and increased capitalized development costs.

Income Taxes

Net income tax expense for the three and six months ended June 30, 2015 increased by $0.3 million and $0.6 million, respectively, compared to the same periods in 2014.

The Company's worldwide effective income tax rate for the three and six months ended June 30, 2015 is 43% and 24%, respectively, compared to 33% and 26%, respectively, for the same periods in 2014. There are a number of items that can significantly impact the Company's effective tax rate, including foreign currency exchange rate fluctuations, earnings subject to tax in jurisdictions where the tax rate is different than the Canadian statutory rate, and granting of equity-based awards. As a result, the Company's recorded tax provision can be significantly different than the expected tax provision calculated based on the statutory tax rate.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Current tax expense	**652**	1,614	**3,915**	4,174
Deferred tax expense (recovery)	**1,023**	(259)	**307**	(516)
Net income tax expense	**1,675**	1,355	**4,222**	3,658

Quarterly net income tax expense over the last eight quarters was as follows:

	2013		2014				2015	
	Q3	Q4	Q1[(1)]	Q2	Q3	Q4	Q1	Q2
Current tax expense	1,806	5,713	2,560	1,614	3,225	2,482	3,263	652
Deferred tax expense (recovery)	911	(2,722)	(257)	(259)	1,252	2,404	(716)	1,023
Net income tax expense	2,717	2,991	2,303	1,355	4,477	4,886	2,547	1,675

(1) The comparative figures have been adjusted to reflect the impact of revising preliminary estimates of the purchase price allocation relating to the acquisition of VideoIQ. This resulted in an increase in amortization of acquired intangibles of $0.4 million and a decrease in the related tax effects of $0.1 million, resulting in a net reduction of $0.3 million in net income from that which was previously reported.

Due to the number of factors that can potentially impact the effective tax rate and the sensitivity of the tax provision to these factors, it is expected that the Company's effective tax rate will fluctuate in future periods.

Interest on Long-Term Debt

For the three and six months ended June 30, 2015, the Company incurred $0.9 million of interest expense, of which $0.7 million relates to interest paid on our Credit Facility and $0.2 million relates to amortization of deferred transaction costs.

Foreign Exchange

During the three months ended June 30, 2015, the Company's foreign exchange loss increased by $0.9 million and for the six months ended June 30, 2015, the Company's foreign exchange gain increased by $6.2 million, compared to the same respective periods in 2014. The changes are primarily driven by our holdings in USD and is mostly unrealized.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Foreign exchange gain (loss)	**(2,791)**	(1,923)	**5,981**	(179)

Quarterly foreign exchange gains and losses over the last eight quarters were as follows:

	2013		2014				2015	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Foreign exchange gain (loss)	151	1,061	1,744	(1,923)	4,052	5,380	8,772	(2,791)

The majority of the Company's foreign exchange gain or loss amounts consists of unrealized foreign exchange and is driven by the Company's holdings in USD. The fluctuation of foreign exchange gain or loss is consistent with the CAD's appreciation or depreciation as measured against the USD for each quarter.

Net Income and Adjusted EBITDA

For the three months ended June 30, 2015, net income decreased by $0.5 million or 19% over the same period in 2014. For the three months ended June 30, 2015, Adjusted EBITDA increased by $6.2 million or 68% over the same period in 2014.

For the six months ended June 30, 2015, net income and Adjusted EBITDA increased by $2.8 million or 26%, and $5.9 million or 29%, respectively, over the same period in 2014. The increase in net income and Adjusted EBITDA largely reflects the Company's increase in sales volume and improved gross margin, as well as the positive impact of foreign exchange gains.

	Three months ended June 30,		**Six months ended June 30,**	
	2015	2014	**2015**	2014
Net income	**2,258**	2,779	**13,319**	10,548
% of revenue	**3%**	4%	**8%**	9%
Adjusted EBITDA[(1)]	**15,386**	9,163	**26,619**	20,684
% of revenue	**17%**	14%	**16%**	17%

[(1)] The comparative figures have been adjusted to reflect the revised definition of Adjusted EBITDA as defined in the "Non-IFRS Financial Measures" section. Previously, Adjusted EBITDA was defined as earnings before deducting interest expense, taxes, depreciation, amortization, foreign exchange gain or loss and share-based payments. The revised definition of Adjusted EBITDA is defined as earnings before deducting interest, taxes, depreciation, amortization, foreign exchange gain or loss, business acquisition-related costs and non-recurring legal costs and share-based payments.

Below is a reconciliation of net income to Adjusted EBITDA:

	Three months ended June 30,		**Six months ended June 30,**	
	2015	2014	**2015**	2014
Net income	**2,258**	2,779	**13,319**	10,548
Share-based payments	**2,477**	974	**4,304**	1,972
Foreign exchange loss (gain)	**2,791**	1,923	**(5,981)**	179
Business acquisition-related and non-recurring legal costs	**656**	726	**922**	1,483
Amortization and depreciation	**4,719**	1,676	**9,119**	3,244
Interest on long-term debt	**847**	—	**847**	—
Interest income	**(37)**	(270)	**(133)**	(400)
Income tax expense	**1,675**	1,355	**4,222**	3,658
Adjusted EBITDA[(1)]	**15,386**	9,163	**26,619**	20,684

[(1)] The comparative figures have been adjusted to reflect the revised definition of Adjusted EBITDA as defined in the "Non-IFRS Financial Measures" section. Previously, Adjusted EBITDA was defined as earnings before deducting interest expense, taxes, depreciation, amortization, foreign exchange gain or loss and share-based payments. The revised definition of Adjusted EBITDA is defined as earnings before deducting interest, taxes, depreciation, amortization, foreign exchange gain or loss, business acquisition-related costs and non-recurring legal costs and share-based payments.

Quarterly net income and Adjusted EBITDA over the last eight quarters were as follows:

	2013		2014				2015	
	Q3	Q4	Q1[(1)]	Q2	Q3	Q4	Q1	Q2
Net income	8,622	6,744	7,769	2,779	11,622	12,965	11,061	2,258
% of revenue	17%	12%	14%	4%	16%	16%	15%	3%
Adjusted EBITDA[(2)]	12,346	11,953	11,521	9,163	16,381	17,217	11,233	15,386
% of revenue	24%	21%	21%	14%	23%	22%	15%	17%

[(1)] The comparative figures have been adjusted to reflect the impact of revising preliminary estimates of the purchase price allocation relating to the acquisition of VideoIQ. This resulted in an increase in amortization of acquired intangibles of $0.4 million and a decrease in the related tax effects of $0.1 million, resulting in a net reduction of $0.3 million in net income from that which was previously reported.

[(2)] The comparative figures have been adjusted to reflect the revised definition of Adjusted EBITDA as defined in the "Non-IFRS Financial Measures" section. Previously, Adjusted EBITDA was defined as earnings before deducting interest expense, taxes, depreciation, amortization, foreign exchange gain or loss and share-based payments. The revised definition of Adjusted EBITDA is defined as earnings before deducting interest, taxes, depreciation, amortization, foreign exchange gain or loss, business acquisition-related costs and non-recurring legal costs and share-based payments.

The quarterly reconciliation of Adjusted EBITDA to net income is as follows:

	2013		2014				2015	
	Q3	Q4	Q1[(1)]	Q2	Q3	Q4	Q1	Q2
Net income	8,622	6,744	7,769	2,779	11,622	12,965	11,061	2,258
Share-based payments	880	1,285	998	974	1,598	(656)	1,827	2,477
Foreign exchange loss (gain)	(151)	(1,061)	(1,744)	1,923	(4,052)	(5,380)	(8,772)	2,791
Business acquisition-related and non-recurring legal costs	132	489	757	726	1,082	3,801	266	656
Amortization and depreciation	373	1,630	1,568	1,676	2,029	1,979	4,400	4,719
Interest on long-term debt	—	—	—	—	—	—	—	847
Interest income	(227)	(125)	(130)	(270)	(375)	(378)	(96)	(37)
Income tax expense	2,717	2,991	2,303	1,355	4,477	4,886	2,547	1,675
Adjusted EBITDA[(2)]	12,346	11,953	11,521	9,163	16,381	17,217	11,233	15,386

[(1)] The comparative figures have been adjusted to reflect the impact of revising preliminary estimates of the purchase price allocation relating to the acquisition of VideoIQ. This resulted in an increase in amortization of acquired intangibles of $0.4 million and a decrease in the related tax effects of $0.1 million, resulting in a net reduction of $0.3 million in net income from that which was previously reported.

[(2)] The comparative figures have been adjusted to reflect the revised definition of Adjusted EBITDA as defined in the "Non-IFRS Financial Measures" section. Previously, Adjusted EBITDA was defined as earnings before deducting interest expense, taxes, depreciation, amortization, foreign exchange gain or loss and share-based payments. The revised definition of Adjusted EBITDA is defined as earnings before deducting interest, taxes, depreciation, amortization, foreign exchange gain or loss, business acquisition-related costs and non-recurring legal costs and share-based payments.

Changes in comparative figures

As at December 31, 2014, the Company revised its definition of Adjusted EBITDA as earnings before deducting interest, taxes, depreciation, amortization, foreign exchange gain or loss, business acquisition-related costs and non-recurring legal costs and share-based payments. In the prior quarters, Adjusted EBITDA was defined as earnings before deducting interest expense, taxes, depreciation, amortization, foreign exchange gain or loss and share-based payments. The revised definition of Adjusted EBITDA includes business acquisition-related costs and non-recurring legal costs and interest income as part of the deductions from earnings. We believe including business acquisition-related costs and non-recurring legal costs as part of the deductions from earnings better reflects the Company's performance from recurring operations. A reconciliation of previously disclosed Adjusted EBITDA, and Adjusted EBITDA as a percentage of revenue, is as follows:

	2013		2014		
	Q3	Q4	Q1	Q2	Q3
Adjusted EBITDA (as previously disclosed)	12,441	11,592	10,907	8,709	15,693
Business acquisition-related and non-recurring legal costs	132	489	757	726	1,082
Interest income	(227)	(128)	(143)	(272)	(394)
Adjusted EBITDA[1]	12,346	11,953	11,521	9,163	16,381
% of revenue (as previously disclosed)	24%	21%	20%	13%	22%
% of revenue	24%	21%	21%	14%	23%

[1] The comparative figures have been adjusted to reflect the revised definition of Adjusted EBITDA as defined in the "Non-IFRS Financial Measures" section. Previously, Adjusted EBITDA was defined as earnings before deducting interest expense, taxes, depreciation, amortization, foreign exchange gain or loss and share-based payments. The revised definition of Adjusted EBITDA is defined as earnings before deducting interest, taxes, depreciation, amortization, foreign exchange gain or loss, business acquisition-related costs and non-recurring legal costs and share-based payments.

Adjusted Earnings and Adjusted EPS

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Net income	**2,258**	2,779	**13,319**	10,548
Share-based payments	**2,477**	974	**4,304**	1,972
Foreign exchange loss (gain)	**2,791**	1,923	**(5,981)**	179
Business acquisition-related and non-recurring legal costs	**656**	726	**922**	1,483
Amortization of acquired intangible assets	**2,717**	758	**5,456**	1,529
Related tax effects	**(3,680)**	(1,437)	**(2,931)**	(1,613)
Adjusted Earnings	**7,219**	5,723	**15,089**	14,098
Basic weighted average number of shares outstanding (000's)	**46,474**	46,155	**46,545**	44,567
Adjusted EPS - basic	**0.16**	0.12	**0.32**	0.32
Fully diluted weighted average number of shares outstanding (000's)	**47,371**	47,042	**47,460**	45,577
Adjusted EPS - diluted	**0.15**	0.12	**0.32**	0.31

The quarterly reconciliation of Adjusted Earnings to net income and calculation of basic and diluted Adjusted EPS is as follows:

	2013		2014				2015	
	Q3	Q4[1]	Q1[2]	Q2	Q3	Q4	Q1	Q2
Net income	8,622	6,744	7,769	2,779	11,622	12,965	11,061	2,258
Share-based payments	880	1,285	998	974	1,598	(656)	1,827	2,477
Foreign exchange loss (gain)	(151)	(1,061)	(1,744)	1,923	(4,052)	(5,380)	(8,772)	2,791
Business acquisition-related and non-recurring legal costs	132	489	757	726	1,082	3,801	266	656
Amortization of acquired intangible assets	—	988	771	758	762	792	2,739	2,717
Related tax effects	(206)	(522)	(176)	(1,437)	171	375	749	(3,680)
Adjusted Earnings	9,277	7,923	8,375	5,723	11,183	11,897	7,870	7,219
Basic weighted average number of shares outstanding (000's)	39,973	41,144	42,962	46,155	46,533	46,572	46,616	46,474
Adjusted EPS - basic	0.23	0.19	0.19	0.12	0.24	0.26	0.17	0.16
Fully diluted weighted average number of shares outstanding (000's)	41,370	42,673	44,498	47,042	47,288	47,181	47,628	47,371
Adjusted EPS - diluted	0.22	0.19	0.19	0.12	0.24	0.25	0.17	0.15

(1) In the first quarter of 2014, we amended our definition of Adjusted Earnings to exclude amortization of acquired intangible assets. This resulted in a net $0.7 million increase in the Adjusted Earnings previously reported in the fourth quarter of 2013.

(2) The comparative figures have been adjusted to reflect the impact of revising preliminary estimates of the purchase price allocation relating to the acquisition of VideoIQ. This resulted in an increase in amortization of acquired intangibles of $0.4 million and a decrease in the related tax effects of $0.1 million, resulting in a net reduction of $0.3 million in net income from that which was previously reported.

FINANCIAL POSITION AND LIQUIDITY

Cash and cash equivalents were $94.9 million at June 30, 2015, compared to $73.1 million at December 31, 2014. As at June 30, 2015, we had net working capital of $154.9 million, compared to $132.3 million as at December 31, 2014. The change in cash consists of:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Cash from (used in) operating activities	**5,643**	5,658	**2,490**	(3,616)
Cash used in investing activities	**(12,587)**	(3,057)	**(34,780)**	(39,295)
Cash from financing activities	**54,999**	94,718	**55,343**	94,799

Cash from operating activities was $2.5 million for the six months ended June 30, 2015. Cash from operations before changes in non-cash working capital, a non-IFRS financial measure, was $26.6 million for the six months ended June 30, 2015.

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Net income	**2,258**	2,779	**13,319**	10,548
Adjustments for:				
Amortization	**3,346**	832	**6,574**	1,665
Depreciation	**1,373**	844	**2,545**	1,579
Lease incentives	**(59)**	(48)	**(119)**	(95)
Share-based payments	**2,477**	974	**4,304**	1,972
Income tax expense	**1,675**	1,355	**4,222**	3,658
Investment tax credits	**(490)**	(1,013)	**(1,613)**	(1,724)
Interest on long-term debt	**847**	—	**847**	—
Unrealized foreign exchange loss (gain)	**3,342**	1,560	**(3,391)**	1,256
Interest income received	**(37)**	(270)	**(133)**	(400)
Cash from operations before changes in non-cash working capital	**14,732**	7,013	**26,555**	18,459

For the six months ended June 30, 2015, an additional change in working capital of $20.8 million resulted primarily from the following: an increase in inventory of $10.8 million to support increased sales volume; an increase in trade and other receivables of $9.1 million; and an increase in prepaids of $1.1 million; all of which were offset by an increase in trade and other payables of $0.2 million. As part of our operating activities, $0.1 million of interest was received and $3.4 million of cash was paid in income taxes.

Cash used in investing activities for the six months ended June 30, 2015 was $34.8 million and comprised of: additions of $22.8 million to intangible assets related to US and international patents acquired, additions to capitalized development costs, and costs related to implementing a new enterprise resource planning system; additions of $10.2 million to property, plant and equipment primarily related to our US manufacturing facility in Plano, Texas; and a $1.8 million deposit paid on the planned purchase of an office building located at 555 Robson Street in Vancouver, BC for our new global headquarters ("555 Robson").

Cash from financing activities for the six months ended June 30, 2015 was $55.3 million and comprised of: proceeds of $101.0 million from long-term debt; proceeds of $1.0 million from the exercise of incentive stock options ("Options"); offset by $39.5 million used in the repurchase of common shares for cancellation under the NCIB; repayment of $5.0 million of long-term debt; payment of $1.6 million on deferred financing fees; and payment of $0.7 million on interest on long-term debt.

In addition to available net working capital, at June 30, 2015 we had available the Credit Facility, which included a USD$100 million Acquisition Facility, a USD$60 million Revolver, and a USD$40 million Real Estate Loan. As at June 30, 2015, USD$80.3 million was drawn on the Acquisition Facility which bears interest at LIBOR rate plus a margin of 2.25%. No amount was drawn on either the Revolver or the Real Estate Loan, and both were fully available.

We expect our working capital needs to continue growing with our sales. We believe that our ongoing operations and associated cash flows, in addition to our cash resources and the Credit Facility, will provide sufficient liquidity to continue financing our planned growth in the near term, and that we will have access to additional debt and equity capital as we grow to support further expansion.

CAPITAL RESOURCES

We define capital as debt and shareholders' equity. Our objective when managing capital is to provide sufficient resources to meet day-to-day operating requirements, enhance and develop new product offerings and expand operations. In managing our capital structure, we take into consideration various factors, including the growth of our business and related infrastructure and the up-front cost of taking on new customers. Our senior management is responsible for managing capital and do so through quarterly meetings and regular review of financial information. The Board is responsible for overseeing this process. We manage our resources while maximizing the return to shareholders through the optimization of debt and equity balances.

The Credit Facility contains restrictive covenants that affect the manner in which the Company may structure or operate its business, including by limiting the Company's ability to incur indebtedness, create liens, sell assets, make capital expenditures, and engage in acquisitions, mergers, or restructurings. The Credit Facility also requires the Company to maintain certain financial ratios. As at June 30, 2015, the Company is in compliance with the financial covenants of the Credit Facility, which consist of a leverage ratio and fixed charge coverage ratio as defined in the Credit Facility. Subject to the leverage ratio, the Company is required to make mandatory repayments beginning with the fiscal year ending December 31, 2015.

CONTRACTUAL OBLIGATIONS

In the normal course of business, we enter into contracts that give rise to commitments for future minimum payments. The Company has obligations under the Credit Facility and operating leases for its office and manufacturing premises. Obligations under our operating leases remain the same as disclosed in our Financial Statements as at December 31, 2014.

	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Debt	94,678	19,932	74,746	—	—

CAPITAL EXPENDITURES

During the three and six months ended June 30, 2015, we incurred capital expenditures of $10.9 million and $14.6 million, respectively, including property, plant and equipment and computer software additions. Although we plan to continue to invest in capital equipment as necessary to support our growth, our business is not overly capital-intensive. As of the date of this MD&A, we have no formal commitments for material capital expenditures, but we do anticipate our needs for investments in capital assets will grow with our business. On February 27, 2015, the Company announced that it had agreed to purchase 555 Robson for consideration of $42.0 million, of which $40.0 million remains unpaid, conditional upon certain closing conditions.

CAPITAL STRUCTURE AND OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 44,739,028 common shares issued and outstanding.

We maintain an Incentive Security Plan (the "Incentive Plan") that enables us to grant Options and Restricted Share Units ("RSUs") (collectively, "Compensation Securities") to Directors, officers, employees and consultants. The Incentive Plan permits the granting of Compensation Securities up to an aggregate maximum of 10% of our issued and outstanding common shares, on a non-diluted basis, provided that the maximum number of RSUs that may be granted thereunder is further limited to 5% of our issued and outstanding common shares, on a non-diluted basis.

During the three and six months ended June 30, 2015, we granted 130,000 and 916,000 Options, respectively, and 13,634 and 329,575 RSUs, respectively. Under the NCIB, the Company purchased and cancelled 2,146,200 common shares during the three months ended June 30, 2015.

The common shares, Options and RSUs outstanding and exercisable as at the following dates are shown below:

	June 30, 2015		**July 29, 2015**	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Common shares outstanding	44,598,369		44,739,028	
Options				
Outstanding	2,917,975	$ 16.38	2,794,725	$ 16.53
Exercisable	801,885	$ 9.93	801,051	$ 9.45
RSUs				
Outstanding	386,825	n/a	359,445	n/a

OFF-BALANCE SHEET ARRANGEMENTS

As at June 30, 2015, the Company had no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Key management personnel

Key management personnel are comprised of the Company's executive officers and its Directors. During the three and six months ended June 30, 2015 and 2014, compensation of key management personnel was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Short-term employee benefits	**1,516**	660	**3,103**	1,606
Termination benefits	**—**	—	**—**	435
Share-based payments	**1,603**	598	**2,740**	1,164
	3,119	1,258	**5,843**	3,205

Other related party transactions

Other related parties include companies owned by Directors of the Company. Transactions with such parties are conducted on a normal commercial basis, including terms and prices. The aggregate value of transactions with other related parties during the three and six months ended June 30, 2015 and 2014 was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
Sale of goods and services	**130**	109	**356**	302
Purchase of services	**—**	37	**—**	85

At June 30, 2015, $46 of sales to related parties were included in trade and other receivables (December 31, 2014 – $61).

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

As at June 30, 2015, our financial instruments consist of cash and cash equivalents, deposits, trade and other receivables, trade and other payables, and debt. The carrying values of these financial instruments approximate their fair values because of the short-term nature of these instruments, with the exception of debt which is measured at amortized cost using the effective interest rate method.

The Company has increased exposure to currency risk and interest rate risk from the funds drawn from the Credit Facility on April 10, 2015. Currency risk arises from the mismatch between the currency in which debt is denominated and the Company's functional currency. Interest rate risk arises from the fluctuation of market interest rates.

The Company enters into forward foreign exchange contracts to minimize exposure to foreign currencies.

The Company's financial instruments, other than the Credit Facility and foreign exchange contracts, are discussed in greater detail in the Company's MD&A for the year ended December 31, 2014. There have been no substantial changes to the composition of or risks associated with these financial instruments since December 31, 2014.

JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates are based upon management's historical experience and various other assumptions that are believed by management to be reasonable under the circumstances, and are reviewed on an ongoing basis. Actual results may differ from the estimates under different assumptions and conditions, and may materially affect financial results of the Company's statement of financial position reported in future periods.

The judgments, estimates and assumptions made by management are the same as those applied and disclosed in the Company's MD&A for the year ended December 31, 2014, as filed under the Company's profile on SEDAR at www.sedar.com.

2014 ACCOUNTING POLICY CHANGES

Presentation of amortization and depreciation

The Company has reclassified amortization and depreciation amounts that were previously classified within sales and marketing and general and administrative expenses into its own line item under amortization and depreciation. The amortization and depreciation amounts were reclassified to provide clarity on the nature of the Company's operating expenses. Comparative figures have been adjusted to reflect this presentation as follows:

	Three months ended June 30, 2014		Six months ended June 30, 2014	
	Pre-reclassification	Post-reclassification	Pre-reclassification	Post-reclassification
Operating expenses				
Sales and marketing	18,086	17,806	30,536	29,974
Research and development	4,400	4,400	7,069	7,069
General and administrative	7,771	6,619	16,251	13,990
Amortization and depreciation	—	1,432	—	2,823
	30,257	30,257	53,856	53,856

NEW ACCOUNTING POLICIES

Financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, deposits, trade and other receivables, trade and other payables, and debt.

Debt is designated as loans and receivables and is recognized initially at fair value and subsequently at amortized cost using the effective interest rate method. Transaction costs are netted against the carrying value of the debt and subsequently amortized over the expected life of the debt. Interest expense on borrowings and standby fees are included in interest on long-term debt in net income.

Derivative contracts are categorized as financial assets and liabilities carried at fair value through profit or loss, and have not been designated in hedge accounting relationships.

New standards and interpretations not yet adopted

IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 is tentatively effective for years commencing on or after January 1, 2018, and will replace IAS 39, Financial Instruments: Recognition and Measurement. Under IFRS 9, financial assets and liabilities will be classified and measured based on the business model in which they are held and the characteristics of the associated contractual cash flows. IFRS 9 also includes a new general hedge accounting standard which will better align hedge accounting and risk management. The Company intends to adopt IFRS 9 in its consolidated financial statements for the year commencing January 1, 2018. The extent of the impact of adopting IFRS 9 has not yet been determined.

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 is effective for years commencing on or after January 1, 2017, and replaces IAS 11, *Construction Contracts*; IAS 18, *Revenue*; International Financial Reporting Interpretations Committee ("IFRIC") 13, *Customer Loyalty Programmes*; IFRIC 15, *Agreements for the Construction of Real Estate*; IFRIC 18, *Transfer of Assets from Customers*; and Standing Interpretations Committee ("SIC") 31, *Revenue - Barter Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adopting IFRS 15 has not yet been determined.

CONTROLS AND PROCEDURES

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the six months ended June 30, 2015 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Condensed consolidated interim financial statements of

Avigilon Corporation

For the three and six months ended June 30, 2015 and 2014

Avigilon Corporation

For the three and six months ended June 30, 2015 and 2014

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Avigilon Corporation

Condensed consolidated interim statements of net income and comprehensive income

(Unaudited)

(In thousands of Canadian dollars, except per share amounts)

	Note	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Sales	13(a)	**$ 89,794**	$ 65,181	**$ 165,215**	$ 120,931
Cost of sales		**(37,755)**	(29,137)	**(68,437)**	(53,090)
		52,039	36,044	**96,778**	67,841
Operating expenses	3(a)				
Sales and marketing		**22,039**	17,806	**42,960**	29,974
Research and development		**3,304**	4,400	**5,048**	7,069
General and administrative		**14,827**	6,619	**28,060**	13,990
Amortization and depreciation		**4,335**	1,432	**8,436**	2,823
		44,505	30,257	**84,504**	53,856
Operating income		**7,534**	5,787	**12,274**	13,985
Other income (expense)					
Interest on long-term debt		**(847)**	—	**(847)**	—
Interest and other income, net		**37**	270	**133**	400
Foreign exchange gain (loss)		**(2,791)**	(1,923)	**5,981**	(179)
		(3,601)	(1,653)	**5,267**	221
Income before income taxes		**3,933**	4,134	**17,541**	14,206
Income tax expense (recovery)					
Current		**652**	1,614	**3,915**	4,174
Deferred		**1,023**	(259)	**307**	(516)
		1,675	1,355	**4,222**	3,658
Net income		**2,258**	2,779	**13,319**	10,548
Other comprehensive income (loss):					
Items that may subsequently be reclassified to income:					
Gain (loss) on translation of foreign subsidiaries		**(2,247)**	(1,402)	**6,607**	(402)
Total comprehensive income		**$ 11**	$ 1,377	**$ 19,926**	$ 10,146
Earnings per share					
Basic		**$ 0.05**	$ 0.06	**$ 0.29**	$ 0.24
Diluted		**$ 0.05**	$ 0.06	**$ 0.28**	$ 0.23
Weighted average number of common shares outstanding (000's)					
Basic		**46,474**	46,155	**46,545**	44,567
Diluted		**47,371**	47,042	**47,460**	45,577

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

Avigilon Corporation

Condensed consolidated interim statements of financial position

(Unaudited)

(In thousands of Canadian dollars)

	Note		**June 30, 2015**		December 31, 2014
Assets					
Current assets					
Cash and cash equivalents		**$**	**94,916**	$	73,141
Trade and other receivables			**56,778**		48,977
Inventories	4		**48,858**		37,691
Prepaid expenses			**6,045**		5,122
			206,597		164,931
Non-current assets					
Property, plant and equipment	5		**21,194**		12,987
Intangible assets	6		**155,425**		129,669
Goodwill	7		**18,222**		17,040
Deposits			**2,665**		747
Deferred tax assets			**11,853**		9,253
Total assets		**$**	**415,956**	$	334,627
Liabilities					
Current liabilities					
Trade and other payables		**$**	**32,140**	$	32,483
Short-term leasehold incentives			**198**		194
Current portion of long-term debt	8		**19,334**		—
			51,672		32,677
Non-current liabilities					
Deferred tax liabilities			**2,751**		376
Long-term leasehold incentives			**723**		495
Long-term debt	8		**73,944**		—
Total liabilities			**129,090**		33,548
Equity					
Share capital	9		**225,143**		234,365
Equity compensation reserve			**12,046**		8,159
Retained earnings			**41,876**		57,361
Accumulated other comprehensive income			**7,801**		1,194
Total equity			**286,866**		301,079
Total equity and liabilities		**$**	**415,956**	$	334,627

Contingencies – Note 12

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

Avigilon Corporation

Condensed consolidated interim statements of changes in equity

(Unaudited)

(In thousands of Canadian dollars, except number of shares)

	Share capital					
	Common shares outstanding	Amount	Equity compensation reserve	Retained earnings	Accumulated other comprehensive income	Total equity
Balance, January 1, 2014	42,955,079	$ 137,383	$ 5,552	$ 22,226	$ 547	$ 165,708
Issuance of common shares from exercise of Options	85,290	420	(132)	—	—	288
Issuance of common shares	3,448,280	100,000	—	—	—	100,000
Share issuance costs, net of tax	—	(4,062)	—	—	—	(4,062)
Share-based payments	—	—	1,972	—	—	1,972
Net income	—	—	—	10,548	—	10,548
Other comprehensive loss	—	—	—	—	(402)	(402)
Balance, June 30, 2014	**46,488,649**	**$ 233,741**	**$ 7,392**	**$ 32,774**	**$ 145**	**$ 274,052**
Balance, January 1, 2015	46,580,299	$ 234,365	$ 8,159	$ 57,361	$ 1,194	$ 301,079
Issuance of common shares from exercise of Options	164,270	1,451	(417)	—	—	1,034
Share repurchases (Note 9)	(2,146,200)	(10,673)	—	(28,804)	—	(39,477)
Share-based payments	—	—	4,304	—	—	4,304
Net income	—	—	—	13,319	—	13,319
Other comprehensive income	—	—	—	—	6,607	6,607
Balance, June 30, 2015	**44,598,369**	**$ 225,143**	**$ 12,046**	**$ 41,876**	**$ 7,801**	**$ 286,866**

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

Avigilon Corporation

Condensed consolidated interim statements of cash flows

(Unaudited)

(In thousands of Canadian dollars)

	Note	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Cash flows from (used in) operating activities					
Net income		**$ 2,258**	$ 2,779	**$ 13,319**	$ 10,548
Adjustments for:					
Amortization	6	**3,346**	832	**6,574**	1,665
Depreciation	5	**1,373**	844	**2,545**	1,579
Lease incentives		**(59)**	(48)	**(119)**	(95)
Share-based payments		**2,477**	974	**4,304**	1,972
Income tax expense		**1,675**	1,355	**4,222**	3,658
Investment tax credits		**(490)**	(1,013)	**(1,613)**	(1,724)
Interest on long-term debt		**847**	—	**847**	—
Unrealized foreign exchange loss (gain)		**3,342**	1,560	**(3,391)**	1,256
Interest income received		**(37)**	(270)	**(133)**	(400)
		14,732	7,013	**26,555**	18,459
Change in:					
Trade and other receivables		**(10,569)**	(6,456)	**(9,127)**	(8,058)
Inventories		**(3,254)**	441	**(10,783)**	(10,247)
Prepaid expenses and deposits		**(226)**	1,460	**(1,070)**	(1,267)
Trade and other payables		**6,895**	5,022	**167**	2,907
Cash generated from operating activities		**7,578**	7,480	**5,742**	1,794
Interest income received		**37**	270	**133**	400
Income taxes paid		**(1,972)**	(2,092)	**(3,385)**	(5,810)
Net cash from (used in) operating activities		**5,643**	5,658	**2,490**	(3,616)
Cash flows used in investing activities					
Acquisitions through business combinations, net of cash acquired		**—**	—	**—**	(32,815)
Deposit on building purchase		**—**	—	**(1,800)**	—
Additions to property, plant and equipment		**(7,275)**	(2,000)	**(10,210)**	(3,676)
Additions to intangible assets		**(5,312)**	(1,057)	**(22,770)**	(2,804)
Net cash used in investing activities		**(12,587)**	(3,057)	**(34,780)**	(39,295)
Cash flows from (used in) financing activities					
Proceeds from long-term debt		**101,016**	—	**101,016**	—
Transaction costs on long-term debt		**(1,550)**	—	**(1,550)**	—
Interest paid on long-term debt		**(697)**	—	**(697)**	—
Repayment of long-term debt		**(4,983)**	—	**(4,983)**	—
Proceeds from Options exercised		**690**	153	**1,034**	288
Shares issued for cash		**—**	100,000	**—**	100,000
Share issuance costs		**—**	(5,435)	**—**	(5,489)
Share repurchases		**(39,477)**	—	**(39,477)**	—
Net cash from financing activities		**54,999**	94,718	**55,343**	94,799
Effect of foreign exchange rate changes on cash and cash equivalents		**(3,257)**	(712)	**(1,278)**	(31)
Net increase in cash and cash equivalents		**44,798**	96,607	**21,775**	51,857
Cash and cash equivalents, beginning of period		**50,118**	60,125	**73,141**	104,875
Cash and cash equivalents, end of period		**$ 94,916**	$ 156,732	**$ 94,916**	$ 156,732

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

1. Nature of operations

Avigilon Corporation (the “Company”) was incorporated under the *Canadian Business Corporations Act* and its principal business is to develop, manufacture, market and sell high definition network video management software, megapixel cameras, access control and video analytics products for the global security market. The Company’s products can be sold separately or in combination to provide end-users with a customizable, end-to-end, integrated, intelligent, high definition video surveillance solution.

The Company’s head office is located at 4th Floor - 858 Beatty Street, Vancouver, British Columbia, Canada V6B 1C1. The Company’s registered office is located at Suite 2900 - 550 Burrard Street, Vancouver, British Columbia, Canada V6C 0A3.

2. Basis of presentation

(a) Statement of compliance

These condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) as applicable to the preparation of interim financial statements, as set out in International Accounting Standard (“IAS”) 34*, Interim Financial Reporting*. They do not include all the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2014.

The interim financial statements were authorized for issue by the Board of Directors on July 29, 2015.

(b) Judgments and estimates

In preparing these interim financial statements, management has made judgments, estimates and assumptions that affect the application of the Company’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are revised prospectively.

The judgments, estimates and assumptions made by management in preparing these interim financial statements are the same as those applied in the Company’s consolidated financial statements as at and for the year ended December 31, 2014.

(In thousands of Canadian dollars, except number of shares and per share amounts)

3. Significant accounting policies

The accounting policies in these interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ended December 31, 2014 except as noted below in (b).

(a) Presentation of amortization and depreciation

The Company has reclassified amortization and depreciation amounts that were previously classified within sales and marketing and general and administrative expenses into their own line item under amortization and depreciation. The amortization and depreciation amounts were reclassified to provide clarity on the nature of the Company's operating expenses. Comparative figures have been adjusted to reflect this presentation as follows:

	Three months ended June 30, 2014		Six months ended June 30, 2014	
	Pre-reclassification	Post-reclassification	Pre-reclassification	Post-reclassification
Operating expenses				
Sales and marketing	$ 18,086	$ 17,806	$ 30,536	$ 29,974
Research and development	4,400	4,400	7,069	7,069
General and administrative	7,771	6,619	16,251	13,990
Amortization and depreciation	—	1,432	—	2,823
	$ 30,257	$ 30,257	$ 53,856	$ 53,856

(b) New accounting policies

Financial Instruments

Non-derivative financial instruments comprise cash and cash equivalents, deposits, trade and other receivables, trade and other payables, and debt.

Debt is designated as loans and receivables and is recognized initially at fair value and subsequently at amortized cost using the effective interest rate method. Transaction costs are netted against the carrying value of the debt and subsequently amortized over the expected life of the debt. Interest expense on borrowings and standby fees are included in interest on long-term debt in net income.

Derivative contracts are categorized as financial assets and liabilities carried at fair value through profit or loss, and have not been designated in hedge accounting relationships.

(c) New standards and interpretations not yet adopted

IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 is tentatively effective for years commencing on or after January 1, 2018, and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. Under IFRS 9, financial assets and liabilities will be classified and measured based on the business model in which they are held and the characteristics of the associated contractual cash flows. IFRS 9 also includes a new general hedge accounting standard which will better align hedge accounting and risk management. The Company intends to adopt IFRS 9 in its consolidated financial statements for the year commencing January 1, 2018. The extent of the impact of adopting IFRS 9 has not yet been determined.

(In thousands of Canadian dollars, except number of shares and per share amounts)

3. Significant accounting policies (continued)

(c) New standards and interpretations not yet adopted (continued)

IFRS 15, *Revenue from Contracts with Customers* (“IFRS 15”)

IFRS 15 is effective for years commencing on or after January 1, 2017, and replaces IAS 11, *Construction Contracts*; IAS 18, *Revenue*; International Financial Reporting Interpretations Committee (“IFRIC”) 13, *Customer Loyalty Programmes*; IFRIC 15, *Agreements for the Construction of Real Estate*; IFRIC 18, *Transfer of Assets from Customers*; and Standing Interpretations Committee (“SIC”) 31, *Revenue - Barter Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/ or timing of revenue recognized. The Company intends to adopt IFRS 15 in its consolidated financial statements for the year commencing January 1, 2017. The extent of the impact of adopting IFRS 15 has not yet been determined.

4. Inventories

		June 30, 2015		December 31, 2014
Raw materials, work in progress	**$**	**34,161**	$	26,612
Finished goods		**14,697**		11,079
	$	**48,858**	$	37,691

During the three and six months ended June 30, 2015, inventory included in cost of sales was $35,490 (2014 – $27,187) and $63,923 (2014 – $49,815), respectively.

5. Property, plant and equipment

The Company’s property, plant and equipment gross carrying amounts and accumulated depreciation were as follows:

		Manufacturing & tooling equipment		Building & leasehold improvements		Furniture & equipment		Demo equipment		Computer equipment		**Total**
Cost												
Balance, January 1, 2014	$	3,801	$	2,989	$	1,630	$	2,112	$	1,811	**$**	**12,343**
Additions		425		1,491		1,167		2,482		1,702		**7,267**
Construction in progress		—		319		—		—		—		**319**
Acquired through business combination		12		33		43		—		17		**105**
Effect of movements in exchange rates		—		66		17		124		7		**214**
Balance, December 31, 2014		4,238		4,898		2,857		4,718		3,537		**20,248**
Additions		3,636		745		257		1,597		1,281		**7,516**
Construction in progress		296		2,621		37		—		2		**2,956**
Effect of movements in exchange rates		56		94		25		165		6		**346**
Balance, June 30, 2015	**$**	**8,226**	**$**	**8,358**	**$**	**3,176**	**$**	**6,480**	**$**	**4,826**	**$**	**31,066**

(In thousands of Canadian dollars, except number of shares and per share amounts)

5. Property, plant and equipment (continued)

	Manufacturing & tooling equipment	Building & leasehold improvements	Furniture & equipment	Demo equipment	Computer equipment	Total
Accumulated depreciation						
Balance, January 1, 2014	$ (789)	$ (773)	$ (571)	$ (841)	$ (801)	**$ (3,775)**
Depreciation expense	(541)	(871)	(277)	(1,062)	(691)	**(3,442)**
Effect of movements in exchange rates	—	(15)	(5)	(24)	—	**(44)**
Balance, December 31, 2014	(1,330)	(1,659)	(853)	(1,927)	(1,492)	**(7,261)**
Depreciation expense	(335)	(568)	(163)	(890)	(589)	**(2,545)**
Effect of movements in exchange rates	(1)	(22)	(4)	(37)	(2)	**(66)**
Balance, June 30, 2015	**$ (1,666)**	**$ (2,249)**	**$ (1,020)**	**$ (2,854)**	**$ (2,083)**	**$ (9,872)**
Carrying amounts						
December 31, 2014	$ 2,908	$ 3,239	$ 2,004	$ 2,791	$ 2,045	$ 12,987
June 30, 2015	**6,560**	**6,109**	**2,156**	**3,626**	**2,743**	**21,194**

During the three and six months ended June 30, 2015, depreciation allocated to cost of sales was $384 (2014 – $244) and $683 (2014 – $421), respectively.

6. Intangible assets

The Company's intangible asset gross carrying amounts and accumulated amortization were as follows:

	Computer software	Technology	Capitalized development	Intellectual property	Total
Cost					
Balance, January 1, 2014	$ 1,543	$ 14,822	$ —	$ —	**$ 16,365**
Additions	474	—	7,419	4,464	**12,357**
Acquired through business combination	—	15,205	—	89,271	**104,476**
Effect of movements in exchange rates	1	2,348	—	(251)	**2,098**
Balance, December 31, 2014	2,018	32,375	7,419	93,484	**135,296**
Additions	4,091	—	7,907	12,229	**24,227**
Effect of movements in exchange rates	7	2,245	—	6,174	**8,426**
Balance, June 30, 2015	**$ 6,116**	**$ 34,620**	**$ 15,326**	**$ 111,887**	**$ 167,949**

(In thousands of Canadian dollars, except number of shares and per share amounts)

6. Intangible assets (continued)

	Computer software	Technology	Capitalized development	Intellectual property	Total
Accumulated amortization					
Balance, January 1, 2014	$ (586)	$ (988)	$ —	$ —	**$ (1,574)**
Amortization expense	(343)	(3,083)	(384)	—	**(3,810)**
Effect of movements in exchange rates	—	(243)	—	—	**(243)**
Balance, December 31, 2014	(929)	(4,314)	(384)	—	**(5,627)**
Amortization expense	(316)	(1,729)	(802)	(3,727)	**(6,574)**
Effect of movements in exchange rates	(3)	(301)	—	(19)	**(323)**
Balance, June 30, 2015	**$ (1,248)**	**$ (6,344)**	**$ (1,186)**	**$ (3,746)**	**$ (12,524)**
Carrying amounts					
December 31, 2014	$ 1,089	$ 28,061	$ 7,035	$ 93,484	$ 129,669
June 30, 2015	**4,868**	**28,276**	**14,140**	**108,141**	**155,425**

During the six months ended June 30, 2015, the Company completed the acquisition of US and international patents and patent applications for cash of $12,213.

7. Goodwill

	June 30, 2015	December 31, 2014
Balance, beginning of period	**$ 17,040**	$ 6,558
Goodwill acquired during the period	**—**	9,518
Effect of movements in exchange rates	**1,182**	964
Balance, end of period	**$ 18,222**	$ 17,040

8. Long-term debt

Prior to April 7, 2015, the Company had available a credit facility (the “Previous Credit Facility”) from a Canadian chartered bank, which was secured by a general security agreement providing a first charge over all of the Company’s assets. The Previous Credit Facility included a $12,000 revolving demand loan (the “Operating Loan”) that bore interest at the bank’s prime rate plus 0.5% per annum for Canadian Dollar (“CAD”) funds and US Base Rate plus 0.5% per annum for US Dollar (“USD”) funds. The Previous Credit Facility also included a $10,000 demand revolving line (the “Foreign Exchange Loan”) to allow the Company to purchase foreign exchange contracts up to an aggregate notional value of $31,250 with a maximum maturity of 12 months, in order to hedge against currency fluctuations in the Company’s operations. As at April 7, 2015, no amount was drawn on either the Operating Loan or the Foreign Exchange Loan.

(In thousands of Canadian dollars, except number of shares and per share amounts)

8. Long-term debt (continued)

On April 7, 2015, the Company entered into a new multi-tranche USD$200 million senior secured syndicated credit facility (the "Credit Facility") to borrow up to the following:

	In USD	
Revolving acquisition facility ("Acquisition Facility")	$	100,000
Revolving line ("Revolver")		60,000
Real estate term loan ("Real Estate Loan")		40,000

The Credit Facility replaces the cancelled Previous Credit Facility and has a three year term. Under the Credit Facility, advances under the Acquisition Facility and the Revolver are available in USD as U.S. Base Rate advances or LIBOR advances, or in the CAD equivalent as Canadian Prime Rate advances or Bankers' Acceptances. Advances under the Real Estate Loan are available in USD as U.S. Base Rate advances or LIBOR advances. An additional margin of 0.75% - 3.00% is applied to the interest rate based on the Company's leverage ratio.

On April 10, 2015, the Company drew USD$80.3 million from the Acquisition Facility ("Term Loan A"). For the three months ended June 30, 2015, advances under the Acquisition Facility bear interest at LIBOR rate plus a margin of 2.25%. As at June 30, 2015, the Company has not drawn any funds on the Revolver or Real Estate Loan.

		June 30, 2015		December 31, 2014
Acquisition Facility - Term Loan A				
Current portion	**$**	**19,932**	$	—
Non-current portion		**74,746**		—
Total Acquisition Facility - Term Loan A		**94,678**		—
Unamortized deferred transaction costs				
Current portion		**598**		—
Non-current portion		**802**		—
Total unamortized deferred transaction costs		**1,400**		—
Long-term debt, net of unamortized deferred transaction costs				
Current portion		**19,334**		—
Non-current portion		**73,944**		—
Total long-term debt	**$**	**93,278**	$	—

The Acquisition Facility matures on April 7, 2018 and the Company is required to make quarterly principal installments equal to 5% of the principal amount of the loan, commencing June 30, 2015. The Company may also make optional repayments at any time without penalty.

A first charge on all present and future assets of the Company and its subsidiaries is provided as security for the Acquisition Facility, Revolver, and Real Estate Loan.

As at June 30, 2015, the Company is in compliance with the financial covenants of the Credit Facility, which consist of a leverage ratio and fixed charge coverage ratio as defined in the Credit Facility. Subject to the leverage ratio, the Company is required to make mandatory repayments beginning with the fiscal year ending December 31, 2015.

(In thousands of Canadian dollars, except number of shares and per share amounts)

8. Long-term debt (continued)

Aggregate minimum payments for each of the next five years ending December 31st for the Acquisition Facility - Term Loan A are as follows:

	In USD	In CAD
2015	$ 8,030	$ 9,966
2016	16,060	19,932
2017	16,060	19,932
2018	36,135	44,848
2019	—	—

9. Share capital

The Company's authorized share capital consists of an unlimited number of common shares with no par value.

At June 30, 2015, issued share capital comprised 44,598,369 common shares (December 31, 2014 – 46,580,299).

On May 12, 2015, the Company commenced a normal course issuer bid whereby it may purchase for cancellation up until May 11, 2016 up to 3,789,740 Avigilon common shares representing approximately 10% of the Company's public float as of May 5, 2015. During the three months ended June 30, 2015, the Company purchased and cancelled 2,146,200 such common shares for $39,477 (which equals an average price of $18.39 per common share).

During the six months ended June 30, 2015, 164,270 (2014 – 85,290) incentive stock options ("Options") were exercised at a weighted average price of $6.36 (2014 – $3.71) per Option, which resulted in the issuance of 164,270 (2014 – 85,290) common shares and the transfer of $417 (2014 – $132) from the equity compensation reserve to share capital.

10. Share-based payment transactions

The Company has adopted an amended and restated incentive security plan (the "Incentive Plan") which was approved by the holders of common shares at the annual general and special meeting of the shareholders held on June 26, 2014. The Incentive Plan permits the granting of equity-based awards, including Options and restricted share units ("RSUs"), to Directors, officers, employees and consultants of the Company. The maximum number of common shares reserved for issuance on settlement of all equity-based awards under the Incentive Plan is limited to 10% of the issued and outstanding common shares from time to time on a non-diluted basis, provided that the maximum number of common shares reserved for issuance on settlement of RSUs is limited to 5% of the issued and outstanding common shares from time to time on a non-diluted basis.

(a) Options

The terms and conditions for acquiring and exercising Options are set by the Board of Directors, including the number of Options granted, the exercise price, the term and the vesting conditions of the Options. The Options generally vest between 0 and 60 months from the date of grant and have a maximum term of 10 years. The fair value of services received in return for Options granted is based on the fair value of Options granted, measured using the Black-Scholes model.

(In thousands of Canadian dollars, except number of shares and per share amounts)

10. Share-based payment transactions (continued)

(a) Options (continued)

The changes in Options during the six months ended June 30, 2015 and 2014 were as follows:

	June 30, 2015		June 30, 2014	
	Number of Options	**Weighted average exercise price**	Number of Options	Weighted average exercise price
Outstanding, beginning of period	**2,346,995**	**$ 14.88**	2,485,890	$ 9.97
Options granted	**916,000**	**18.96**	264,500	29.54
Options exercised	**(164,270)**	**6.36**	(85,290)	3.71
Options forfeited	**(180,750)**	**19.04**	(516,375)	10.83
Outstanding, end of period	**2,917,975**	**$ 16.38**	2,148,725	$ 12.44
Exercisable, end of period	**801,885**	**$ 9.93**	680,183	$ 7.05

The weighted average share price at the date of exercise for Options exercised during the six months ended June 30, 2015 was $19.03 (2014 – $23.40).

The weighted average grant date fair value of an Option granted during the six months ended June 30, 2015 was $9.40 (2014 – $11.10) per share. The weighted average fair value assumptions for Option grants made were as follows:

	Six months ended June 30,	
	2015	2014
Forfeiture rate	**10%**	10%
Weighted average share price at grant date	**$ 18.96**	$ 29.54
Average risk-free interest rate	**1.63%**	1.68%
Expected life	**7 years**	5 years
Annualized volatility	**47%**	40%
Dividend yield	**0%**	0%

(b) Restricted share units

The maximum number of common shares reserved for issuance on settlement of RSUs is limited to 5% of the issued and outstanding common shares from time to time on a non-diluted basis. The terms and conditions for acquiring and releasing RSUs are set by the Board of Directors, including the number of RSUs granted and the vesting conditions of the RSUs. For each RSU vested, a share is issued from the treasury of the Company and its value is reclassified to share capital.

(In thousands of Canadian dollars, except number of shares and per share amounts)

10. Share-based payment transactions (continued)

(b) Restricted share units (continued)

The changes in RSUs during the six months ended June 30, 2015 and 2014 were as follows:

	June 30, 2015			June 30, 2014		
	Number of RSUs		**Weighted average grant date fair value**	Number of RSUs		Weighted average grant date fair value
Outstanding, beginning of period	**67,237**	**$**	**23.87**	—	$	—
RSUs granted	**329,575**		**19.18**	—		—
RSUs forfeited	**(9,987)**		**18.02**	—		—
Outstanding, end of period	**386,825**	**$**	**20.03**	—	$	—

Each of the RSUs granted during the six months ended June 30, 2015 has a total vesting period of three years pursuant to which a third of the RSUs will vest each year.

11. Related parties

(a) Key management personnel

Key management personnel are comprised of the Company's executive officers and its Directors. During the three and six months ended June 30, 2015 and 2014, compensation of key management personnel was as follows:

	Three months ended June 30,				**Six months ended June 30,**			
		2015		2014		**2015**		2014
Short-term employee benefits	**$**	**1,516**	$	660	**$**	**3,103**	$	1,606
Termination benefits		**—**		—		**—**		435
Share-based payments		**1,603**		598		**2,740**		1,164
	$	**3,119**	$	1,258	**$**	**5,843**	$	3,205

(b) Other related party transactions

Other related parties include companies owned by Directors of the Company. Transactions with such parties are conducted on a normal commercial basis, including terms and prices. The aggregate value of transactions with other related parties during the three and six months ended June 30, 2015 and 2014 was as follows:

	Three months ended June 30,				**Six months ended June 30,**			
		2015		2014		**2015**		2014
Sale of goods and services	**$**	**130**	$	109	**$**	**356**	$	302
Purchase of services		**—**		37		**—**		85

At June 30, 2015, $46 of sales to related parties was included in trade and other receivables (December 31, 2014 – $61).

(In thousands of Canadian dollars, except number of shares and per share amounts)

12. Contingencies

The Company is engaged in certain legal actions in the ordinary course of business and believes that the ultimate outcome of these actions will not have a material adverse effect on its operating results, liquidity or financial position.

13. Operating segments

The Company operates in one segment in which it develops, manufactures, markets and sells high definition network video management software, megapixel cameras, access control and video analytics products for the global security market.

The geographic information below analyzes the Company's revenue and non-current assets by the Company's country of domicile and other countries. In presenting the following information, segment revenue has been based on the geographic location of customers and non-current assets have been based on the geographic location of the assets.

(a) Revenue

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	**2015**	2014
United States	**$ 54,123**	$ 35,038	**$ 95,734**	$ 63,401
EMEA	**19,342**	14,783	**36,852**	27,926
United Kingdom	**4,328**	4,514	**8,676**	9,218
Canada	**4,219**	4,244	**8,905**	8,355
Asia Pacific	**5,544**	4,777	**9,567**	8,001
Latin America	**2,238**	1,825	**5,481**	4,030
Total revenues	**$ 89,794**	$ 65,181	**$ 165,215**	$ 120,931

(b) Non-current assets

	Property, plant & equipment	Intangible assets	Goodwill	Deposits	**Total non-current assets**
Canada	$ 10,164	$ 101,521	$ 3,092	$ 652	$ 115,429
United States	2,823	28,148	13,948	95	45,014
December 31, 2014	$ 12,987	$ 129,669	$ 17,040	$ 747	$ 160,443
Canada	$ 10,592	$ 126,845	$ 3,306	$ 2,527	**$ 143,270**
United States	10,602	28,580	14,916	138	**54,236**
June 30, 2015	**$ 21,194**	**$ 155,425**	**$ 18,222**	**$ 2,665**	**$ 197,506**

14. Seasonality

Revenues have historically experienced some seasonality, with the second and fourth quarters generally being the Company's strongest quarters of the year. The second quarter strength generally coincides with the ramp up of building and development cycles for the year, while the fourth quarter typically benefits from increased spending as annual budget cycles come to a close. Management expects that this seasonality impact will continue in the foreseeable future.

15. Capital management

The Company's primary capital management objective is to deploy an efficient capital structure in order to maximize long-term shareholder value. In addition, the Company aims to ensure sufficient liquidity to support its operational and strategic plans, and to maintain adequate liquidity reserves to allow the Company to manage any unforeseen risks and act on opportunities.

The Company's capital comprises debt and equity, the book value of which was $381,544 at June 30, 2015 (December 31, 2014 – $301,079).

The Company's senior management is responsible for managing the Company's capital, and do so through quarterly meetings and regular review of the financial information. The Company's Board of Directors is responsible for overseeing this process.

The Credit Facility contains restrictive covenants that affect the manner in which the Company may structure or operate its business, including by limiting the Company's ability to incur indebtedness, create liens, sell assets, make capital expenditures, and engage in acquisitions, mergers, or restructuring. The Credit Facility also requires the Company to maintain certain financial ratios.

16. Financial instruments

The Company's financial instruments consists of cash and cash equivalents, deposits, trade and other receivables, trade and other payables, and debt. The carrying values of these financial instruments approximate their fair values because of the short-term nature of these instruments, with the exception of debt which is measured at amortized cost using the effective interest rate method.

The Company has increased exposure to currency risk and interest rate risk from the funds drawn from the Credit Facility on April 10, 2015. Currency risk arises from the mismatch between the currency in which debt is denominated and the Company's functional currency. Interest rate risk arises from the fluctuation of market interest rates.

The Company enters into forward foreign exchange contracts to minimize exposure to foreign currencies.