SECOND QUARTER REPORT

FISCAL 2014

Avigilon

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2014. 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, 2014 and with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2013 and the MD&A thereon. 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 August 7, 2014. All amounts are expressed in Canadian dollars unless otherwise stated.

Caution regarding forward-looking information

This report includes forward-looking statements about our activities, events and developments that we expect to or anticipate may occur in the future including, for example, statements about our business outlook, assessment of market conditions, strategies, future plans and future sales. Forward-looking statements normally contain words such as "believe", "expect", "anticipate", "plan", "intend", "continue", "estimate", "may", "will", "should", and similar expressions. Such statements are not guarantees of future performance. They are based on management's expectations and assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate in the circumstances.

We have based these forward-looking statements on estimates and assumptions that we believed were reasonable when the statements were prepared. Actual results may be substantially different because of the risks and uncertainties associated with our business. Important risks that could cause such differences include, but are not limited to, the length of sales cycles, rapid technological advancement, competition, the availability of critical inputs, foreign exchange rate occurrences and doing business in foreign countries. Additionally, differences between projected and actual results could arise due to events that are announced or completed after the date of this MD&A, including mergers, acquisitions, other business combinations and divestitures. You will find more information about the risks and uncertainties affecting our business in the "Risk Factors" sections of our Annual Information Form dated March 28, 2014 and our Final Short Form Prospectus dated March 31, 2014, each of which is available under the Company's profile on SEDAR (www.sedar.com).

We do not update or revise forward-looking information even if new information becomes available unless required to do so by applicable law. You should not place undue reliance on forward-looking statements.

Overview

Avigilon is a leader in the design, manufacturing and marketing of high-definition ("HD") and megapixel ("MP") network-based video surveillance systems, video analytics and access control equipment for the global security market. The Company was incorporated on October 22, 2004 and spent three years developing the Avigilon system. The Company continues to improve and expand on the Avigilon system, which is designed to provide high quality video capture, transmission, recording and playback. The components of the Avigilon system can be sold separately or in combination to provide customers with a customizable end-to-end video surveillance solution, and include:

- the Avigilon Control Center ("ACC") video management software ("VMS") with High-Definition Stream Management (HDSM)™ technology ("HDSM"), which is available in Core, Standard and Enterprise versions to suit all levels of applications;

- the industry's broadest range of HD internet protocol ("IP") cameras, with resolutions ranging from 1MP to 29MP;

- video recording hardware;

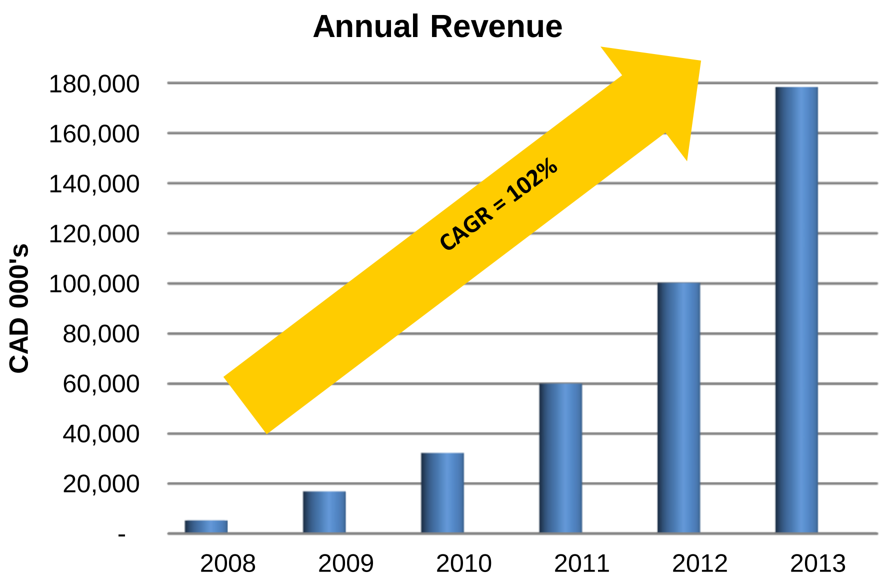
- real-time, intelligent video analytics;

- system accessories, such as lenses, camera enclosures and joystick/keyboard controllers; and

- Avigilon Access Control Manager (“ACM”), our browser-based access control manager that seamlessly integrates with Active Directory, Human Resources (“HR”) databases and many other Information Technology (“IT”) and logical security systems.

The features and capabilities of the components provide the Avigilon system with the versatility to be configured and deployed in many different applications in a variety of industries.

Commercial sales of the Avigilon system began in December 2007. Since 2008, the first full year of sales, through 2013, revenues in Canadian dollars (“CAD”) have experienced a compound annual growth rate (“CAGR”) of 102%.



The Avigilon system is sold through a network of resellers (known as “Integrators”), all of which have been certified by Avigilon. We do not sell our products directly to end-users. We complement and support our sales channel with our own sales and support staff, who work either directly with prospective end-user customers or in coordination with Integrators to promote and help design surveillance systems and security solutions that are tailored to specifically address the needs of the end-user. This network of Integrators provides us with a highly efficient global sales distribution network.

To date, Avigilon systems have been installed at over 24,000 customer sites in more than 113 countries, including school campuses, transportation systems, healthcare centres, public venues, critical infrastructure, prisons, factories, casinos, airports, financial institutions, government facilities and retailers.

Recent Corporate Events

Strategic Acquisition

On January 13, 2014 (the “Acquisition Date”), the Company acquired 100% of the outstanding shares of VideoIQ, Inc. (“VideoIQ”), a private company specializing in video analytics. We are in the process of integrating VideoIQ’s operations into our business and the results of VideoIQ’s operations since the Acquisition Date have been included in our consolidated statement of net income.

Strengthening of the Board and Executive Team

Director Wan Jung was reinstated as Chief Financial Officer ("CFO") on May 6, 2014. Mr. Jung has been a Director of Avigilon since 2004 and he is one of our founding shareholders. Mr. Jung was the Company's first CFO, a position he held for eight years including during Avigilon's successful initial public offering.

Dr. Mahesh Saptharishi, Senior Vice President of Analytics and Data Science, joined Avigilon in January 2014, following Avigilon's acquisition of VideoIQ. Dr. Saptharishi was invited to join the executive management team in June of 2014. Reporting to our Chief Operating Officer ("COO"), Bryan Schmode, Dr. Saptharishi is leading the development of Avigilon's video analytics portfolio.

Subsequent to the quarter ended June 30, 2014, Fred Withers, FCA, was appointed to the Company's Board of Directors, increasing the number of Directors on the Board to seven. Mr. Withers is a former partner of Ernst & Young LLP where he was managing partner for British Columbia for ten years and, most recently, the firm's chief development officer, Canada. Mr. Withers has also joined the Audit Committee of the Company.

Selected Financial Information

The following table sets out selected consolidated financial information for the periods indicated, which has been derived from the consolidated financial statements of the Company. Each investor should read the following in conjunction with such statements.

Financial Performance

($ 000's except per share data)	Three months ended June 30, 2014	Three months ended June 30, 2013	Change %	Six months ended June 30, 2014	Six months ended June 30, 2013	Change %
Revenue	**65,181**	39,217	66%	**120,931**	71,244	70%
Cost of sales	**29,137**	18,473	58%	**53,090**	34,151	55%
Gross margin	**36,044**	20,744	74%	**67,841**	37,093	83%
Expenses	**30,257**	16,463	84%	**53,856**	28,685	88%
Operating income	**5,787**	4,281	35%	**13,985**	8,408	66%
Net income	**2,779**	3,392	(18)%	**10,548**	6,189	70%
Basic net income per share	**0.06**	0.09		**0.24**	0.16	
Diluted net income per share	**0.06**	0.08		**0.23**	0.15	

Financial Position

	June 30, 2014	December 31, 2013
Total assets	**298,515**	188,939
Total liabilities(1)	**24,463**	23,231

(1) Total non-current financial liabilities are nil.

Overall Performance

The second quarter of 2014 was another strong period for Avigilon, continuing our trend of profitable year-over-year revenue growth. Revenue for the quarter was $65.2 million, which was a 66% increase over the same quarter in 2013. For the six months ended June 30, revenue was $120.9 million, an increase of 70% over the same period in 2013. Expenses increased by 84% in the second quarter over the corresponding period in 2013, and by 88% for the six months ended June 30, 2014 versus 2013. Operating income increased by 35% in the second quarter of 2014 over the second quarter in 2013 as a result of the increased rate of investment in operational functions, while the six month increase in operating income from 2013 was 66%. As the Canadian dollar strengthened, we experienced a foreign exchange loss in the second quarter of 2014 which contributed to a $2.3 million reduction in net income compared to the same period in 2013. A foreign exchange gain in the first quarter of 2014 ensured that the higher operating income for the first six months of 2014 flowed through to a 70%, or $4.3 million, increase in net income over the corresponding period in 2013.

On the innovation front, we were active on a number of key new products in the second quarter, including the following:

- We obtained Guobiao regulatory certification for certain of our products in China, allowing us to submit proposals for certain government and large private projects requiring security solutions;

- At the end of the second quarter of 2014, twenty-two patents have been issued to Avigilon and its subsidiaries for both design and utility applications;

- The image quality of the HD Pro camera series is made possible by Avigilon's new H4 platform, with the latest edition of Avigilon's proprietary HDSM technology, HDSM 2.0. Avigilon developed HDSM 2.0 to operate with the H.264 compression standard, simultaneously providing users with high-resolution imaging performance, further bitrate reduction of H.264 and the intelligence and flexibility of HDSM. This technology pairing provides a unique and superior network performance over systems solely utilizing H.264 compression, allowing for greater processing power, increased frame rate, improved image quality and smarter bandwidth and storage management. The result is high quality, detailed images with minimal network impact;

- ACC 5.2 was introduced in Las Vegas, USA at the ISC West 2014 trade show in April. As described in our MD&A for the first quarter of 2014, large organizations can keep distributed locations safe with features including cross-site groups, private bookmarking, alarm escalation and pick site-view location;

- In May, we announced the addition of the Rialto video analytics product family to our portfolio. Following Avigilon's acquisition of VideoIQ, this release marked the introduction of industry-leading video analytics to Avigilon's end-to-end security solution. The patented Rialto technology, when combined with high-definition video imaging, provides end-users with superior perimeter surveillance to help protect property, assets and personnel. The flexibility and ease of installation offers a cost-effective way for companies and end-users to integrate video analytics into their current analog or IP video surveillance system. The "Teach-by-Example" functionality of the Rialto family of products enables them to learn from end-user feedback in respect of the accuracy of alarms, increasing future accuracy and resulting in one of the lowest false alarm rates in the industry. This learning technology provides enhanced levels of protection, particularly suited for environments that require perimeter and intrusion security, such as critical infrastructure and commercial installations;

- In July, we released ACC 5.2.2, adding support for Rialto video analytics. ACC 5.2.2 now combines Rialto's real-time event detection and verification capabilities with the award-winning performance of ACC;

- At the IFSEC 2014 trade show in London, England, we announced the broadening of our access control portfolio with the launch of ACM 5.2. One of the most open and scalable access control products in the security industry, ACM 5.2 provides an IT-friendly solution for organizations of all sizes. This latest version extends the reach of Avigilon's access control offering with a wider range of applications and enhancements that includes the introduction of the ACM Professional appliance. ACM Professional supports access control installations of up to 32 door reader licenses, to address the physical security needs of small to medium-sized sites. ACM 5.2 also features a strengthened integration with the ACC, deepening Avigilon's end-to-end offering and enabling end-users to create a comprehensive Avigilon security solution. Users of ACM and ACC can seamlessly monitor both video and access control events and alarms through a single platform, enabling quicker response times and more efficient management of building security; and

- Also in June, our HD Micro Dome 1MP and 2MP cameras were made available with an in-ceiling mount. The industry's smallest HD security camera, the Micro Dome cameras provide a cost-effective and easy transition into HD video surveillance.

Selected Quarterly Results

The following is a selected summary of quarterly results for the eight most recently completed quarters to June 30, 2014:

Selected Quarterly Results (unaudited)

	2012		**2013**				**2014**	
($ 000's except per share data)	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**(2)	**Q2**
Revenue	25,508	32,650	32,027	39,217	51,157	55,943	55,750	65,181
Cost of sales	12,542	16,352	15,678	18,473	24,006	23,456	23,953	29,137
Gross margin	12,966	16,298	16,349	20,744	27,151	32,487	31,797	36,044
Expenses	9,492	11,949	12,222	16,463	16,190	23,938	23,599	30,257
Operating income	3,474	4,349	4,127	4,281	10,961	8,549	8,198	5,787
Net income	2,164	3,046	2,798	3,392	8,622	6,744	7,769	2,779
Basic income per share	0.07	0.09	0.07	0.09	0.22	0.16	0.18	0.06
Diluted income per share	0.06	0.08	0.07	0.08	0.21	0.16	0.17	0.06
Adjusted EBITDA(1)	4,073	5,325	5,098	5,406	12,441	11,592	10,907	8,709
Total assets	76,338	86,971	90,557	98,278	108,677	188,939	196,461	298,515
Total liabilities	10,635	16,079	15,550	17,392	18,011	23,231	20,906	24,463

(1) Adjusted EBITDA is not an IFRS financial measure. Please see the "Adjusted EBITDA and Net Income" section for more information.

(2) The comparative figures have been adjusted to reflect the impact of revising its 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 an increase 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.

Discussion of Operations

Revenue

Avigilon's revenue is derived from the sale of HD, network-based video surveillance systems, video analytics and access control equipment for the global security market. The Avigilon system and its components are promoted by Avigilon sales staff and sold through a global network of Integrators.

Revenue growth continues to reflect increased product sales volumes worldwide, resulting from greater customer adoption in 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 is earned in six main regions: Canada, United States, United Kingdom, EMEA, Asia Pacific and Latin America.

Revenue by Geographic Region

	Three months ended June 30			**Six months ended June 30**		
($ 000's)	**2014**	2013	% Growth	**2014**	2013	% Growth
Canada	**4,244**	3,563	19%	**8,355**	6,375	31%
United States	**35,038**	18,187	93%	**63,401**	35,119	81%
United Kingdom	**4,514**	2,553	77%	**9,218**	5,129	80%
EMEA	**14,783**	11,133	33%	**27,926**	18,307	53%
Asia Pacific	**4,777**	2,145	123%	**8,001**	3,655	119%
Latin America	**1,825**	1,636	12%	**4,030**	2,659	52%
Total revenues	**65,181**	39,217	66%	**120,931**	71,244	70%

Our strong year-over-year revenue growth resulted from increased contributions in all markets. Our growth in any given quarter is largely the result of activities and expenditures from previous quarters, as there is generally a lag between when we hire a new sales person or develop and launch a new product and when we see the full benefit of such activities. Growth in the second quarter of 2014 largely reflects the additional staffing, new product launches and marketing activities from late 2013. The most significant increases were generally experienced in the areas where we actively expanded sales staff over the past year.

Quarterly revenue over the last eight quarters is presented in the table below:

Selected Quarterly Results (unaudited)

	2012		2013				2014	
($ 000's)	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Canada	2,155	3,160	2,811	3,563	4,462	3,892	4,111	4,244
United States	12,788	16,656	16,932	18,187	27,437	29,259	28,363	35,038
United Kingdom	2,180	1,527	2,576	2,553	3,791	3,999	4,703	4,514
EMEA	5,430	8,205	7,175	11,133	10,564	13,253	13,143	14,783
Asia Pacific	1,734	1,629	1,510	2,145	2,539	2,667	3,224	4,777
Latin America	1,221	1,473	1,023	1,636	2,364	2,874	2,206	1,825
Total revenues	25,508	32,650	32,027	39,217	51,157	55,944	55,750	65,181

Revenue has historically experienced some seasonality, with first and third quarters generally being flat to or slower than the second and fourth quarters. The second quarter generally coincides with the ramp up of building and development cycles for the year, while the fourth quarter typically benefits from increased spending as the annual budget cycle comes to a close. Revenue in the second quarter of 2014 is consistent with this trend.

Revenue in the second quarter also reflects the impact of a relatively weak Canadian dollar. A large portion of our revenue is denominated in US dollars ("USD"), British pounds ("GBP") or Euros ("EUR"), depending on the region, although our exposure to the US dollar is the most significant. We estimate that every $0.01 change in the exchange rate of CAD per USD has an estimated $0.9 million impact on our Adjusted EBITDA and a $0.6 million impact on net income.

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 in absolute dollars; however cost of sales as a percentage of sales is expected to generally decrease over time due to a variety of factors including the introduction of new products, cost reductions from increased buying power and decreases in fixed costs as a percentage of revenue.

	Three months ended June 30,		**Six months ended June 30,**	
($ 000's)	**2014**	**2013**	**2014**	**2013**
Cost of sales	**29,137**	18,473	**53,090**	34,151
% of revenue	**45%**	47%	**44%**	48%

Cost of sales for the three months ended June 30, 2014 increased by $10.7 million, or 58% compared to the second quarter of 2013, driven by the quarter-over-quarter increase in revenue. However, as a percentage of revenue, cost of sales has fallen from 47% in the second quarter of 2013 to 45% in the second quarter of 2014.

This ratio has generally been falling throughout the last two years, as can be seen in the following table.

	2012		2013				2014	
($ 000's)	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Cost of sales	12,542	16,352	15,678	18,473	24,006	23,456	23,953	29,137
% of revenue	49%	50%	49%	47%	47%	42%	43%	45%

This trend in cost of sales as a percentage of revenue is largely due to a combination of sales 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 since the third quarter of 2013 has been enhanced by the weaker Canadian dollar during these periods. However, cost of sales as a percentage of the revenue in the second quarter of 2014 was higher than in the first quarter due to the relative strengthening of the Canadian dollar.

Gross Margins

Gross margin for the quarter ended June 30, 2014 was $36.0 million, or 55%, of revenue, compared to $20.7 million or 53% of revenue in the same period of 2013.

	Three months ended June 30,		Six months ended June 30,	
($ 000's)	**2014**	**2013**	**2014**	**2013**
Gross margin	**36,044**	20,744	**67,841**	37,093
% of revenue	**55%**	53%	**56%**	52%

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

Quarterly gross margin percentages were as follows:

	2012		2013				2014	
(%)	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Gross margin	51%	50%	51%	53%	53%	58%	57%	55%

Sales and Marketing

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

Sales and marketing expenses for the second quarter of 2014 increased by approximately $7.4 million, or 69%, from the same period in the previous year. Increased sales and marketing expenses year-over-year continue to be in line with our planned investment in growth.

	Three months ended June 30,		Six months ended June 30,	
($ 000's)	**2014**	**2013**	**2014**	**2013**
Sales and marketing	**18,086**	10,713	**30,536**	18,208
% of revenue	**28%**	27%	**25%**	26%

Sales and marketing expenses were $18.1 million in the second quarter of 2014 compared with $10.7 million in the second quarter of 2013. Sales and marketing expenses as a percentage of revenue were 28% compared with 27% in the second quarter of 2013.

Over the last eight quarters, sales and marketing expenses were as follows:

	2012		2013				2014	
($ 000's)	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Sales and marketing	6,014	7,389	7,495	10,713	9,975	13,270	12,450	18,086
% of revenue	24%	23%	23%	27%	19%	24%	22%	28%

As discussed in the Outlook section below, we are continuing to expand our sales team throughout 2014. We anticipate that sales and marketing expenses will increase as a percentage of revenue in the short term largely due to the continued investment in business development and recruiting of sales people in key regions. Over time, we expect sales and marketing expenses to decrease as a percentage of revenue, as increases in revenue should outpace increases in sales and marketing expenses.

Research and Development

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. Investment tax credits are netted against the Company's R&D expenses.

Net R&D expenses in the second quarter of 2014 increased by $2.1 million, or 87%, from the second quarter of 2013. Gross R&D expenditures increased to $6.4 million for the quarter and were approximately 10% of revenue, compared to 7% in the second quarter of 2013.

	Three months ended June 30,		Six months ended June 30,	
($ 000's)	**2014**	**2013**	**2014**	**2013**
Gross R&D expense	**6,390**	2,776	**11,382**	4,814
Investment tax credits	**(1,013)**	(427)	**(1,723)**	(747)
Capitalized development	**(977)**	-	**(2,590)**	-
R&D expense	**4,400**	2,349	**7,069**	4,067

During the second quarter of 2014, we further refined our process of managing R&D projects and activities. We expect that these development 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.

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

	2012		2013				2014	
($ 000's)	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Gross R&D expense	1,697	1,865	2,038	2,776	3,222	3,733	4,992	6,390
Investment tax credits	(450)	(337)	(320)	(427)	(911)	(997)	(710)	(1,013)
Capitalized development	-	-	-	-	-	-	(1,613)	(977)
R&D expense	1,247	1,528	1,718	2,349	2,311	2,736	2,669	4,400

The increase in gross expenses is consistent with our plan to increase the size of our development team. R&D activities are a key factor in our ability to continue our growth, and we expect to continue to increase expenses as a percentage of revenue, as we focus on enhancing and expanding our product offerings. As with sales and marketing expenses, R&D expenses are incurred in advance of the related revenue from new products.

ITCs for the second quarter of 2014 have been reduced as a percentage of gross R&D expenditures compared to recent quarters, driven by two primary factors. Firstly, effective January 1, 2014 the federal SRED ITC rate has been reduced from 20% of eligible expenditures to 15%. Secondly, with the acquisitions of RedCloud Security, Inc. ("RedCloud") and VideoIQ, a proportion of our R&D expenditures are incurred in the United States and are not eligible for ITCs. We anticipate that the ITCs for future quarters, as a percentage of gross expenditures, will be generally consistent with the second quarter of 2014.

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, depreciation, amortization of acquired intangibles, and other corporate expenses.

G&A expenses for the second quarter of 2014 were $7.8 million, up from $3.4 million for the second quarter of 2013.

	Three months ended June 30,		Six months ended June 30,	
($ 000's)	**2014**	**2013**	**2014**	**2013**
G&A	**7,771**	3,401	**16,251**	6,410
% of revenue	**12%**	9%	**13%**	9%

The year-over-year increase is largely due to additional personnel and their related expenses to support our business growth and also $0.8 million of amortization related to the technology acquired from RedCloud and from VideoIQ. We expect our G&A expenses to continue to increase in the near term as we continue to build infrastructure to support planned growth.

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

	2012		2013				2014	
($ 000's)	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
G&A expense	2,232	3,032	3,009	3,401	3,903	7,932	8,480	7,771
% of revenue	9%	9%	9%	9%	8%	14%	15%	12%

The quarterly growth in G&A expenses has been fairly consistent through to the third quarter of 2013, as the Company has been steadily adding to the support function of the organization. The substantial increase in the fourth quarter of 2013 was due in part to a significant increase in staffing and other items that were discussed in the MD&A for the fourth quarter of 2013. G&A expenses for Q1 2014 have been adjusted upwards by $0.4 million as a result of revising its preliminary estimates of the purchase price allocation for VideoIQ.

Adjusted EBITDA and Net Income

The term Adjusted EBITDA refers to earnings before deducting interest expense, taxes, depreciation, amortization, foreign exchange gain or loss, 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. Adjusted EBITDA does not have a standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures provided by other companies. Accordingly, investors are cautioned that Adjusted EBITDA should not be construed as an alternative to operating income or net income determined in accordance with IFRS as an indicator of the Company's financial performance or as a measure of its liquidity and cash flows.

	Three months ended June 30,		Six months ended June 30,	
($ 000's)	2014	2013	2014	2013
Adjusted EBITDA	**8,709**	5,406	**19,616**	10,505
% of revenue	**13%**	14%	**16%**	15%
Net income	**2,779**	3,392	**10,548**	6,189
% of revenue	**4%**	9%	**9%**	9%

Adjusted EBITDA and net income for the second quarter of 2014 were 61% greater than and 18% less than the second quarter of 2013, respectively.

Below is a reconciliation of Adjusted EBITDA to net income:

	Three months ended June 30,		Six months ended June 30,	
($ 000's)	2014	2013	2014	2013
Adjusted EBITDA	**8,709**	5,406	**19,616**	10,505
Share-based payments	**(974)**	(850)	**(1,972)**	(1,436)
Foreign exchange gain (loss)	**(1,923)**	338	**(179)**	191
Depreciation and amortization	**(1,676)**	(319)	**(3,244)**	(601)
Interest expense	**(2)**	(1)	**(15)**	(1)
Earnings before tax	**4,134**	4,574	**14,206**	8,658
Income tax expense	**(1,355)**	(1,182)	**(3,658)**	(2,468)
Net income	**2,779**	3,392	**10,548**	6,190

Net income for the second quarter of 2014 was $2.8 million, or 4% of revenue, compared to $3.4 million, or 9% of revenue, in the same period of 2013.

Adjusted EBITDA and net income by quarter for the last eight quarters were as follows:

	2012		2013				2014	
($ 000's)	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Adjusted EBITDA	4,073	5,325	5,099	5,406	12,441	11,592	10,907	8,709
% of revenue	16%	16%	16%	14%	24%	21%	20%	13%
Net income	2,164	3,046	2,798	3,392	8,622	6,744	7,769	2,779
% of revenue	8%	9%	9%	9%	17%	12%	14%	4%

Quarterly reconciliation of Adjusted EBITDA to net income is as follows:

	2012		2013				2014	
($ 000's)	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**
Adjusted EBITDA	4,073	5,325	5,099	5,406	12,441	11,592	10,907	8,709
Share-based payments	(333)	(620)	(586)	(850)	(880)	(1,285)	(998)	(974)
Foreign exchange gain (loss)	(498)	349	(147)	338	151	1,061	1,744	(1,923)
Depreciation and amortization	(247)	(244)	(282)	(319)	(373)	(1,630)	(1,568)	(1,676)
Interest expense	(3)	-	-	(1)	-	(3)	(13)	(2)
Income before tax	2,992	4,810	4,084	4,574	11,339	9,735	10,072	4,134
Current and deferred Income tax expense	(828)	(1,764)	(1,286)	(1,182)	(2,717)	(2,991)	(2,303)	(1,355)
Net income	2,164	3,046	2,798	3,393	8,622	6,744	7,769	2,779

Adjusted EPS

Management believes that analyzing operating results exclusive of the significant non-cash items noted above provides a useful measure of the Company's performance as it provides a view of underlying performance and trends. The term Adjusted EPS refers to earnings before share-based payments, foreign exchange gain or loss, business acquisition-related costs, amortization of acquired intangibles and related tax effects. Adjusted EPS does not have a standardized meaning prescribed by IFRS and is not necessarily comparable to similar measures provided by other companies. Investors are cautioned that Adjusted EPS should not be construed as an alternative to basic and fully diluted EPS in accordance with IFRS as an indicator of the Company's financial performance or as a measure of its liquidity and cash flows.

($ 000's, except per share data)	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4[(1)]	2014 Q1[(2)]	2014 Q2
Net income	2,164	3,046	2,798	3,392	8,622	6,744	7,769	2,779
Share-based payments	333	620	586	850	880	1,285	998	974
Foreign exchange (gain) loss	498	(349)	148	(338)	(151)	(1,061)	(1,744)	1,923
Business acquisition-related costs	-	-	18	105	132	489	757	726
Amortization of acquired intangible assets	-	-	-	-	-	988	771	758
Related tax effects	(230)	(100)	(236)	(160)	(206)	(522)	(176)	(1,437)
Adjusted Earnings	2,765	3,217	3,314	3,849	9,277	7,923	8,375	5,723
Basic weighted average number of shares outstanding (000's)	32,710	32,994	38,240	39,108	39,973	41,144	42,962	46,155
Adjusted EPS – basic	0.08	0.10	0.09	0.10	0.23	0.19	0.19	0.12
Fully diluted weighted average number of shares outstanding (000's)	36,436	39,748	40,551	40,398	41,369	42,673	44,498	47,042
Adjusted EPS - diluted	0.08	0.08	0.08	0.10	0.22	0.19	0.19	0.12

(1) In the first quarter of 2014, we amended our definition of Adjusted EPS 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 its 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 an increase in the related tax effects of $0.1 million, resulting in a net reduction of $0.3 million in net income from that which we previously reported.

Outlook

Global Surveillance Market

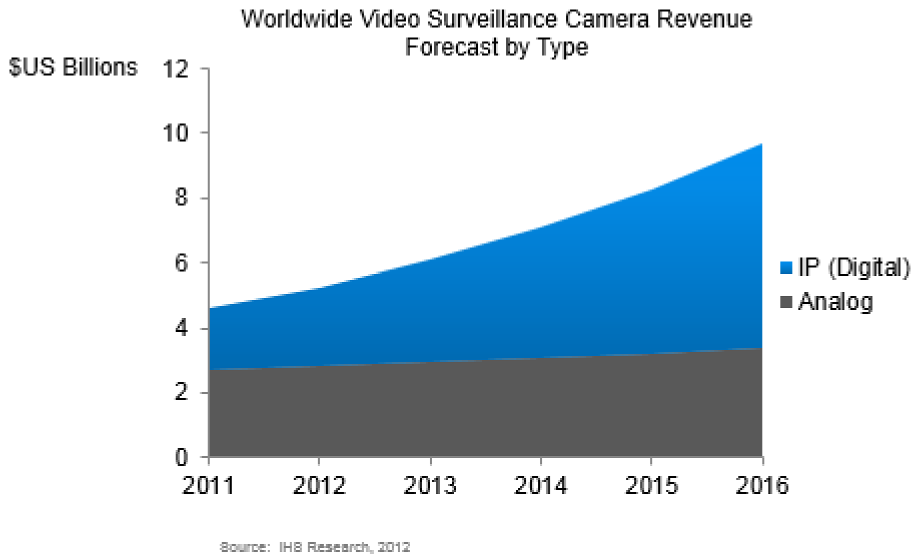
The security surveillance market is large and growing rapidly. The worldwide video surveillance systems market, which includes cameras, video management software, storage hardware, analog video encoders and related equipment, but excludes installation costs, was estimated to be US$12.6 billion in 2012 and is projected to increase to US$23.2 billion by 2016[1]. This is partly due to growth in customer adoption of new HD video surveillance systems, as well as a result of increased focus on public safety, asset protection, theft prevention, liability management and regulatory compliance. Surveillance is everywhere, including stadiums, hospitals, critical infrastructure, airports, ports, retail, banks, offices, law enforcement and prisons, casinos, transportation, and school campuses.

The security video surveillance market today is fragmented, with no one producer commanding a dominant share of the market. According to IHS Research (formerly IMS Research) in their report "The World Market for CCTV and Video Surveillance Equipment – 2012 Edition", the 15 largest suppliers of video surveillance equipment accounted for only 43.5% of the market in 2011, and no company commanded more than a 5.9% market share.

Within the market there is also a differentiation between camera manufacturers and VMS providers. Many camera manufacturers do not offer their own VMS solution. Conversely, the large VMS companies do not typically manufacture cameras. The result is that the various third party cameras and VMS systems are designed to work in an "open platform". As of today we believe that there is no fully comprehensive global standard for connectivity between IP surveillance devices, which has led to complexity of integrating a series of third party cameras and VMS systems.

1 Source: IHS Research, 2013

Although surveillance cameras are only one component of a surveillance system, the growth of the IP (or digital) camera market is indicative of the projected conversion of the overall market from analog to digital. As the chart below shows, the IP camera portion of the market is estimated to grow at over 24% CAGR from 2011 to 2016, while the analog camera portion is expected to grow at only 3.9% over the same period[2]. It is this conversion that we believe provides the greatest opportunity for Avigilon.



Avigilon Growth Strategy

Our mission is to be one of the world's leading security companies by providing our customers with superior protection created through innovation. Our growth plans include continuing with our successful strategy to expand our sales reach, build brand awareness and accelerate innovation. We are also positioning Avigilon to move into other segments of the broader security market with our recent strategic acquisitions.

We believe that our complete end-to-end HD IP surveillance system, which includes our proprietary HDSM technology, provides a superior solution over other surveillance options. As we design and manufacture all of the components to work together seamlessly, our system provides "plug and play" ease of installation and easy operation. Additionally, our HDSM technology provides efficient management of the large amount of data generated from HD cameras, allowing us to produce the market's broadest range of MP cameras and video storage and search capabilities that we believe are superior to other products in the market. We believe that these factors provide us with significant opportunities as the market grows and shifts from analog and analog/digital-hybrid systems to fully digital HD IP surveillance systems.

In 2014 we are continuing our successful strategy of expanding our sales team, enhancing marketing and brand awareness, and increasing R&D activities, as we grow towards our goal of achieving $500 million in run-rate revenue by the end of 2016. We also continue to further differentiate the Avigilon system from competitive products by integrating access control and video analytics technologies from the acquisitions of RedCloud and VideoIQ. As a result, our system provides end-users with the ability to combine and control both video surveillance and access control from one system, while allowing the system to proactively identify alert conditions through video analytics. We believe that there are no competitive systems in the market that can do all three functions collectively.

[2] Source: IHS Research (formerly IMS Research), The World Market for CCTV and Video Surveillance Equipment – 2012 Edition, May 2012

1. *Continued Expansion of Global Sales Resources*

Building on the expansion of our sales team in 2012 and 2013, for 2014 we are continuing to make significant investments in hiring more sales managers and directors in new and existing regions.

Within existing markets, we will continue to increase the number of sales resources in key territories to allow us to achieve greater sales penetration. In general, this involves separating a successful territory into two or more smaller territories and adding new sales managers for the new smaller territories.

Another key focus area for sales growth is the continued expansion of our business development team. Our business development team is focused on large enterprise scale sales in high growth vertical market segments. The role of the team is to work with the larger Integrators and end-users in these verticals to ensure that they understand our products' capabilities and the value proposition of the Avigilon system, bringing in regional sales representatives to assist with closing individual sales. These large enterprise-scale sales typically have much longer sales cycles and require a different sales strategy than those employed by our regional sales managers and directors for the smaller scale sales.

The business development sales strategy is proving to be successful, as we are making strong inroads in a number of the key verticals and have made a significant number of large enterprise sales to date. In 2014, we are continuing to build the team and add resources focused on the following verticals:

- Global Strategic Accounts;
- Federal government;
- Finance and banking;
- Energy; and
- Architects and Engineers.

We are also adding an Application Engineering group to the Business Development team, which will work on the long cycle and more complex projects that require customer work and integrations.

In order to support the substantial growth in sales and sales directors expected in 2014, we are also adding to the sales support functions within the sales organization, including sales operations, sales engineering and inside sales. The purpose of each of these groups is to remove specific administrative and support functions from individual sales directors and allow them to focus on direct sales activities, as follows:

- Sales Operations – The sales operations group will support the direct sales team through analysis, planning and other administrative support activities to drive efficiency in the sales force;

- Sales Engineering – Sales engineering will support the direct sales team by providing pre-sales technical support, such as system design and specifications, as well as demonstrations and other activities that assist the direct sales efforts; and

- Inside Sales – Inside sales will focus largely on incoming sales leads from trade shows, advertising and other marketing initiatives, improving lead generation and lead qualification to grow our sales opportunity pipeline.

2. *Product Development*

Constant innovation is a key aspect of our growth plans. We have continued to expand the product development team to allow Avigilon to maintain its technology advantage in the surveillance industry by developing and releasing innovative products in a timely fashion. During 2013 we began restructuring the product development group, including an approximate doubling of the number of engineers and developers and by introducing new structures to allow us to scale our innovation and development efforts as we grow towards our goal of achieving $500 million in run-rate revenue by the end of 2016. The investment in our product development team has been successful to date and we continue to release new innovative products, as discussed above.

3. *Product Management*

   The projected growth in sales and product development in 2014 is necessitating additional growth in our product management department. The function of product management is to develop and manage the roadmap of new products and features to be developed, and act as a bridge between customers and product development. Historically, product management was handled within the product development group. As part of the restructuring in 2013, the product management function was separated, aligned with the sales organization and dedicated resources were added. The continued growth in our surveillance portfolio in 2014, coupled with the addition of access control and video analytics, is requiring the investment in additional resources.

   Our product management, sales, marketing and product development groups work very closely to ensure our product road map strategy continues to keep us ahead of our competition and solve the needs of existing and new customers.

4. *Marketing and Brand Awareness*

   Awareness of the Avigilon brand is also a key growth driver for us. Our goal is to increase awareness at both the Integrator and end-user level to create a market pull for our products to drive lead generation.

   In 2014, we are continuing to invest in strategic initiatives to further develop our brand awareness, influence key decision makers at the end-user level, and strengthen our partner relationships.

5. *Operations*

   Throughout 2013 we expanded the facilities in our Richmond, British Columbia manufacturing plant and have recently brought our total manufacturing space to approximately 61,000 square feet. The expansion has allowed us to reconfigure our assembly operations for better efficiency and provides sufficient room and flexibility for future growth. We have already begun experiencing the benefits of the efficiencies, which is partly responsible for the favourable trend in cost of sales as a percentage of revenue. We have the physical capacity to generate up to $500 million in annual revenue without significant additional capital expenditures.

   As we continue to grow our revenue around the world, we may invest in manufacturing capacity outside of our Richmond facility. This may entail a “master / clone” manufacturing configuration, where our Richmond facility would become the “master”, due to its close proximity to our product development group, and “clone” factories may be replicated in other jurisdictions. Configuration control may be retained by the master factory, with product changes implemented at that location, such that the manufacture of new products would be rolled out to clone factories once perfected at the master factory.

6. *Strategic Acquisitions*

   While our main focus is to grow the business organically, we are seeking opportunistic acquisitions that may be incremental to our long term growth. We do not anticipate that such acquisitions would necessarily be directly within the surveillance space, but do see the potential for acquisitions that are complementary to our end-to-end HD surveillance system, such as with our recent acquisitions of RedCloud and VideoIQ.

We believe that the combination of the expansion of these areas of our business will contribute to further revenue growth. However, as the necessary investments are incurred in advance of the resulting revenue generation, the 2014 initiatives described above will increase a number of our operating expenses as a percentage of revenue, and therefore are expected to put pressure on our Adjusted EBITDA and net income. As these initiatives are undertaken and investments made, there may be pressure on Adjusted EBITDA and net income until such time as the resulting operating leverage gains are realized.

Financial Position and Liquidity

Cash and cash equivalents were $156.7 million at June 30, 2014, compared to $104.9 million at December 31, 2013.

	Three months ended June 30,		Six months ended June 30,	
($ 000's)	**2014**	**2013**	**2014**	**2013**
Cash from (used in) operating activities	**5,658**	(2,587)	**(3,616)**	(1,666)
Cash (used in) investing activities	**(3,057)**	(17,791)	**(39,295)**	(18,570)
Cash from financing activities	**94,718**	1,618	**94,799**	2,349

For the six months ended June 30, 2014, our cash used in operating activities was $3.6 million. Cash from operations before changes in non-cash working capital, a non-IFRS measure, was $18.9 million. An additional change in working capital of $16.7 million resulted primarily from investing in inventory of $10.2 million and receivables of $8.1 million and $5.8 million of income taxes paid. Cash used in investing was $39.3 million, comprised primarily of the VideoIQ acquisition of $32.8 million and $6.5 million for property and equipment and intangible assets. Cash provided from financing activities of $94.8 million resulted primarily from the April 8, 2014 issue of 3,448,280 common shares at a price of $29.00 per common share for aggregate gross proceeds of $100.0 million (the "April 8 Financing") and incurred share issuance costs of $5.5 million.

As at June 30, 2014, we had net working capital of $208.8 million, compared to $136.3 million as at December 31, 2013. The increase resulted primarily from the net proceeds of $94.8 million from the April 8 Financing and $18.9 million generated from operations before changes in non-cash working capital, offset by the net consideration of $32.8 paid to acquire VideoIQ and $6.5 million paid for property and equipment and intangible assets.

In addition to available net working capital, we have a $12.0 million revolving demand loan (the "Operating Loan") from a Canadian chartered bank, which is secured by a general security agreement providing a first charge over all assets of Avigilon. This facility bears interest at the bank's prime rate plus 0.5% per annum for CAD funds and US Base Rate plus 0.5% per annum for US$ funds. The overall credit facilities also includes a $10.0 million demand revolving line (the "Foreign Exchange Loan") to allow us to purchase foreign exchange contracts up to an aggregate notional value of $31.25 million with a maximum maturity of 12 months, in order to hedge against currency fluctuations in our operations. As at June 30, 2014, no amount was drawn on the credit facility and both the Operating Loan and the Foreign Exchange Loan were fully available.

We expect our working capital needs will continue growing with our sales. We believe that our ongoing operations and associated cash flows, in addition to our cash resources and revolving 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.

Contractual Obligations

In the normal course of business we enter into contracts that give rise to commitments for future minimum payments. All of the Company's material financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

During the second quarter of 2014 there were no material changes to the contractual obligations as at December 31, 2013.

Capital Expenditures

We incurred capital expenditures of $2.0 million during the second quarter of 2014. Although we plan to continue to invest in capital equipment as necessary to support our growth, our business is not overly capital-intensive. As at June 30, 2014 we have no formal commitments for material capital expenditures; however we do anticipate our needs for investments in capital assets will grow with our business.

Outstanding Share Data

We maintain an Incentive Security Plan (the "Incentive Plan") that enables us to grant Options and Restricted Share Units ("RSU") (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, provided that the maximum number of RSUs that may be granted thereunder is further limited to 5% of our issued and outstanding shares.

During the three and six months ended June 30, 2014, we granted 57,000 and 264,500 Options, respectively.

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

	June 30, 2014		**August 7, 2014**	
	Number	Average exercise price $	Number	Average exercise price $
Common shares outstanding	46,488,649		46,520,299	
Options				
Outstanding	2,148,725	12.44	2,563,575	14.52
Exercisable	680,183	7.05	748,783	7.30
RSUs				
Outstanding	Nil	N/A	67,237	N/A
Exercisable	Nil	N/A	Nil	N/A

Off-Balance Sheet Arrangements

As at June 30, 2014, the Company had no off-balance sheet arrangements, other than operating leases (which have not materially changed since December 31, 2013), that have, or are reasonably likely to have, a current or future material effect on its consolidated financial position, financial performance, liquidity, capital expenditures or capital resources.

Transactions with Related Parties

Key management personnel

Key management personnel comprise the Company's executive officers and its directors. During the period, compensation of key management personnel was as follows:

	Three months ended June 30,		**Six months ended June 30,**	
	2014	2013	**2014**	2013
Short-term employee benefits	**$ 660**	$ 569	**$ 1,606**	$ 1,016
Termination benefits	**-**	-	**435**	-
Share-based payments	**598**	344	**1,164**	689
	$ 1,258	$ 913	**$ 3,205**	$ 1,705

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 in the period were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Sale of goods and services	**$ 109**	$ 102	**$ 302**	$ 130
Purchase of goods	**37**	-	**85**	56

At June 30, 2014, $65 of sales to related parties was included in trade and other receivables (December 31, 2013 – $8), and $12 of purchases from related parties was included in trade and other payables (December 31, 2013 – $1).

Financial Instruments and Other Instruments

Our financial instruments consist of cash and cash equivalents, deposits, trade and other receivables and trade and other payables. The carrying values of these financial instruments approximate their fair values because of their short-term nature.

There have been no substantial changes to the composition of or risks associated with financial instruments since December 31, 2013.

Critical Accounting Estimates

The preparation of the Company's 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.

In addition to the critical accounting estimates and judgements applied and disclosed in the Company's MD&A for the year ended December 31, 2013, as filed under the Company's profile on www.sedar.com, the Company identified the following additional areas where estimates and assumptions are made for the three and six months ended June 30, 2014.

Capitalization of development costs

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Judgement is required in determining the technical and commercial feasibility and in assessing the probability of future economic benefits.

Provisional fair values in business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Key estimates and assumptions include future cash flows and discount rates used for valuing intangible assets. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, will be adjusted when the final measurements are determined.

Recognition of deferred tax assets

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probably that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. To the extent that future taxable income and the application of existing tax laws differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax assets could be impacted.

Valuation of share-based payments

The Company grants share-based awards, including Options and RSUs to directors, officers and employees of the Company. Compensation expense for Options is determined based on estimated fair values of all share-based awards at the date of grant, calculated using a Black-Scholes option pricing model. Total compensation expense for each award is amortized over the vesting period, taking into consideration management's best estimate of awards which are expected to vest. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and the expected life of the Options. Changes in these input assumptions or in management's estimate of the number of awards which will ultimately vest may significantly affect the amount of non-cash share-based payments recorded.

New Accounting Policies

Changes in accounting policies

On January 1, 2014, the Company adopted the following amendments to accounting standards issued by the IASB:

- International Accounting Standard 32, *Offsetting Financial Assets and Liabilities* ("IAS 32")
- International Financial Reporting Interpretations Committee 21, *Levies* ("IFRIC 21")

The application of these accounting standards has not materially impacted the interim financial statements.

New standards and interpretations not yet adopted

Annual improvements to IFRS

The IASB issued narrow-scope amendments to various standards as part of its annual improvements process in December 2013. Most amendments will be applicable prospectively for annual periods beginning on or after July 1, 2014. Amendments were made to clarify the following in their respective standards:

- Definition of "vesting condition" in IFRS 2, *Share-based Payment;*
- Classification and measurement of contingent consideration; and scope exclusion for the formation of joint arrangements in IFRS 3, *Business Combinations;*
- Disclosures on the aggregation of operating segments in IFRS 8, *Operating Segments*;
- Measurement of short-term receivables and payables; and scope of portfolio exception in IFRS 13, *Fair Value Measurement*; and
- Definition of "related party" in IAS 24, *Related Party Disclosures*.

The Company intends to adopt these amendments in its consolidated financial statements for the year commencing January 1, 2015; the extent of the impact of adoption of the amendments has not yet been determined.

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 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 adoption of the amendments 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*; IFRIC 13, *Customer Loyalty Programmes*; IFRIC 15, *Agreements for the Construction of Real Estate*; IFRIC 18, *Transfer of Assets from Customers*; and 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 judgemental 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 adoption of the standard has not yet been determined.

Controls and Procedures

Changes in Internal Controls over Financial Reporting

During the six month period ended June 30, 2014, there were no changes to our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released Internal Control - Integrated Framework: 2013, which is an update to the internal control framework previously issued in 1992. The Company will transition to the updated Framework during the transition period which extends to December 15, 2014, after which the 1992 Framework will be considered superseded by the 2013 Framework. Management is currently assessing the impact of this transition and will report any significant changes to the Company's internal control over financial reporting that may result.

Condensed consolidated interim financial statements of

Avigilon Corporation

For the three and six months ended June 30, 2014 and 2013

Avigilon Corporation
June 30, 2014

Table of contents

Condensed consolidated statements of net income and statements of other comprehensive income 1

Condensed consolidated statements of financial position 2

Condensed consolidated statements of changes in equity 3

Condensed consolidated statements of cash flows 4

Notes to the condensed consolidated financial statements .... 5 - 14

Avigilon Corporation

Condensed consolidated statements of net income

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

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Sales	**$ 65,181**	$ 39,217	**$ 120,931**	$ 71,244
Cost of sales	**(29,137)**	(18,473)	**(53,090)**	(34,151)
	36,044	20,744	**67,841**	37,093
Operating expenses				
Sales and marketing	**18,086**	10,713	**30,536**	18,208
Research and development	**4,400**	2,349	**7,069**	4,067
General and administrative	**7,771**	3,401	**16,251**	6,410
	30,257	16,463	**53,856**	28,685
Operating income	**5,787**	4,281	**13,985**	8,408
Other income (expense):				
Interest and other, net	**270**	(44)	**400**	59
Foreign exchange (loss) gain	**(1,923)**	337	**(179)**	190
	(1,653)	293	**221**	249
Income before income taxes	**4,134**	4,574	**14,206**	8,657
Income tax expense (recovery):				
Current	**1,614**	754	**4,174**	1,479
Deferred	**(259)**	428	**(516)**	989
	1,355	1,182	**3,658**	2,468
Net income	**$ 2,779**	$ 3,392	**$ 10,548**	$ 6,189
Earnings per share				
Basic	**$ 0.06**	$ 0.09	**$ 0.24**	$ 0.16
Diluted	**$ 0.06**	$ 0.08	**$ 0.23**	$ 0.15
Weighted average number of shares outstanding (000's)				
Basic	**46,155**	39,108	**44,567**	38,676
Diluted	**47,042**	40,399	**45,577**	39,854

Condensed consolidated statements of other comprehensive income

(Unaudited)
(In thousands of Canadian dollars)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net Income	**$ 2,779**	$ 3,392	**$ 10,548**	$ 6,189
Other comprehensive income:				
Items that may subsequently be reclassified to income:				
(Loss) gain on translation of foreign subsidiaries	**(1,402)**	20	**(402)**	20
Total comprehensive income	**$ 1,377**	$ 3,412	**$ 10,146**	$ 6,209

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

Avigilon Corporation

Condensed consolidated statements of financial position

(Unaudited)
(In thousands of Canadian dollars)

	Note	June 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		**$ 156,732**	$ 104,875
Trade and other receivables		**39,116**	31,316
Inventories	5	**32,066**	19,444
Prepaid expenses		**2,876**	1,467
		230,790	157,102
Non-current assets			
Property and equipment	6	**10,744**	8,568
Goodwill and intangible assets	7	**43,863**	21,349
Deposits		**774**	586
Deferred tax asset	4	**12,344**	1,334
Total assets		**$ 298,515**	$ 188,939
Liabilities			
Current liabilities			
Trade and other payables		**$ 21,757**	$ 20,628
Short-term leasehold incentives		**190**	190
		21,947	20,818
Non-current liabilities			
Deferred tax liability		**1,939**	1,740
Long-term leasehold incentives		**577**	673
Total liabilities		**24,463**	23,231
Equity			
Share capital	8	**233,741**	137,383
Equity compensation reserve		**7,392**	5,552
Accumulated other comprehensive income		**145**	547
Retained earnings		**32,774**	22,226
Total equity		**274,052**	165,708
Total equity and liabilities		**$ 298,515**	$ 188,939

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

Avigilon Corporation

Condensed consolidated statements of changes in equity

(Unaudited)
(In thousands of Canadian dollars)

	Share capital		Equity compensation	Retained	Accumulated other comprehensive	Total
	Shares	Amount	reserve	earnings	income	equity
		$	$	$	$	$
Balance, January 1, 2013	37,705,799	66,559	3,663	670	-	70,892
Net income	-	-	-	6,189	-	6,189
Gain on translation of foreign subsidiaries	-	-	-	-	20	20
Share-based payments	-	-	1,436	-	-	1,436
Issuance of common shares	2,229,260	2,349	-	-	-	2,349
Transfer to share capital on exercise of options	-	1,429	(1,429)	-	-	-
Balance, June 30, 2013	**39,935,059**	**70,337**	**3,670**	**6,859**	**20**	**80,886**
Balance, January 1, 2014	42,955,079	137,383	5,552	22,226	547	165,708
Net income	-	-	-	10,548	-	10,548
Loss on translation of foreign subsidiaries	-	-	-	-	(402)	(402)
Share-based payments	-	-	1,972	-	-	1,972
Issuance of common shares	3,533,570	100,288	-	-	-	100,288
Share issuance costs	-	(5,489)	-	-	-	(5,489)
Deferred income tax effect on share issuance costs	-	1,427	-	-	-	1,427
Transfer to share capital on exercise of options	-	132	(132)	-	-	-
Balance, June 30, 2014	**46,488,649**	**233,741**	**7,392**	**32,774**	**145**	**274,052**

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

Avigilon Corporation

Condensed consolidated statements of cash flows

(Unaudited)
(In thousands of Canadian dollars)

	Note	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flows from (used in) operating activities					
Net income		**$ 2,779**	$ 3,392	**$ 10,548**	$ 6,189
Adjustments for:					
Amortization	7	**832**	13	**1,665**	27
Depreciation	6	**844**	340	**1,579**	569
Share-based payments		**974**	850	**1,972**	1,436
Income tax expense		**1,355**	1,182	**3,658**	2,468
Investment tax credits		**(1,013)**	(427)	**(1,724)**	(747)
Unrealized foreign exchange loss (gain)		**1,560**	(827)	**1,256**	(707)
Change in fair value of derivative financial instruments		**-**	465	**-**	620
Other		**(48)**	36	**(95)**	15
		7,283	5,024	**18,859**	9,870
Change in:					
Trade and other receivables		**(6,456)**	(5,804)	**(8,058)**	(6,716)
Inventories		**441**	(1,529)	**(10,247)**	(2,762)
Prepaid expenses and deposits		**1,460**	334	**(1,267)**	(84)
Trade and other payables		**5,022**	252	**2,907**	(810)
Cash generated from (used in) operating activities		**7,750**	(1,723)	**2,194**	(502)
Income taxes paid		**(2,092)**	(864)	**(5,810)**	(1,164)
Net cash from (used in) operating activities		**5,658**	(2,587)	**(3,616)**	(1,666)
Cash flows used in investing activities					
Acquisition of subsidiary, net of cash acquired		**-**	(16,916)	**(32,815)**	(16,916)
Additions to property and equipment		**(2,000)**	(875)	**(3,676)**	(1,639)
Additions to intangible assets		**(1,057)**	-	**(2,804)**	(15)
Net used in investing activities		**(3,057)**	(17,791)	**(39,295)**	(18,570)
Cash flows from (used in) financing activities					
Proceeds from issue of share capital	8	**100,153**	1,618	**100,288**	2,349
Share issuance costs	8	**(5,435)**	-	**(5,489)**	-
Net cash from financing activities		**94,718**	1,618	**94,799**	2,349
Effect of exchange rate fluctuations on cash held		**(712)**	137	**(31)**	133
Net increase (decrease) in cash and cash equivalents		**96,607**	(18,623)	**51,857**	(17,754)
Cash and cash equivalents, beginning of period		**60,125**	50,728	**104,875**	49,859
Cash and cash equivalents, end of period		**$ 156,732**	$ 32,105	**$ 156,732**	$ 32,105

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

1. Nature of operations

Avigilon Corporation (the “Company”) is incorporated under the Canadian Business Corporations Act and its principal business is developing, manufacturing, marketing and selling high definition surveillance systems.

The Company’s head office is located at Suite 400 - 858 Beatty Street, Vancouver, British Columbia, Canada V6B 1C1. The Company’s registered and records office is located at Suite 2900, 550 Burrard Street, Vancouver, British Columbia, Canada V6C 0A3.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board ("IASB"). They do not include all the information required for a complete set of International Financial Reporting Standards (“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, 2013.

The interim financial statements were authorized for issue by the Board of Directors on August 7, 2014.

(b) Judgements and estimates

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of 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.

In addition to those judgements, estimates and assumptions disclosed in the Company’s consolidated financial statements as at and for the year ended December 31, 2013, the significant judgements made by management in applying the Company’s accounting policies and key sources of estimation uncertainty included in the interim financial statements are included below.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the interim financial statements include the following:

Capitalization of development costs

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Judgement is required in determining the technical and commercial feasibility and in assessing the probability of future economic benefits.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the interim financial statements include:

2. Basis of preparation (continued)

(b) Judgements and estimates (continued)

Provisional fair values in business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Key estimates and assumptions include future cash flows and discount rates used for valuing intangible assets. Changes to the provisional values of assets acquired and liabilities assumed, deferred income taxes and resulting goodwill, if any, will be adjusted when the final measurements are determined.

Recognition of deferred tax assets

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. To the extent that future taxable income and the application of existing tax laws differ significantly from the Company's estimate, the ability of the Company to realize the deferred tax assets could be impacted.

3. Significant accounting policies

With the exception of the items described below, 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, 2013.

(a) Changes in accounting policies

On January 1, 2014, the Company adopted the following amendments to accounting standards issued by the IASB:

- International Accounting Standard 32, *Offsetting Financial Assets and Liabilities* ("IAS 32")
- International Financial Reporting Interpretations Committee 21, *Levies* ("IFRIC 21")

The application of these accounting standards has not materially impacted the interim financial statements.

3. Significant accounting policies (continued)

(b) New standards and interpretations not yet adopted

Annual improvements to IFRS

The IASB issued narrow-scope amendments to various standards as part of its annual improvements process in December 2013. Most amendments will be applicable prospectively for annual periods beginning on or after July 1, 2014. Amendments were made to clarify the following in their respective standards:

- Definition of "vesting condition" in IFRS 2, *Share-based Payment;*
- Classification and measurement of contingent consideration; and scope exclusion for the formation of joint arrangements in IFRS 3, *Business Combinations*;
- Disclosures on the aggregation of operating segments in IFRS 8, *Operating Segments*;
- Measurement of short-term receivables and payables; and scope of portfolio exception in IFRS 13, *Fair Value Measurement*; and
- Definition of "related party" in IAS 24, *Related Party Disclosures*.

The Company intends to adopt these amendments in its consolidated financial statements for the year commencing January 1, 2015; the extent of the impact of adoption of the amendments has not yet been determined.

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 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 adoption of the amendments 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*; IFRIC 13, *Customer Loyalty Programmes*; IFRIC 15, *Agreements for the Construction of Real Estate*; IFRIC 18, *Transfer of Assets from Customers*; and 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 judgemental 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 adoption of the standard has not yet been determined.

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

4. Business combination

On January 13, 2014 (the "Acquisition Date"), the Company acquired 100% of the outstanding shares of VideoIQ, Inc. ("VideoIQ"), a private company specializing in video analytics, for cash consideration of $34,045 ($31,284 USD). VideoIQ provides real-time intelligent video analytics solutions for security and business intelligence applications, and has a developed portfolio of video analytics intellectual property, as well as trade secrets and know-how.

The purchase price allocation for the acquisition of VideoIQ has not been completed as of the date of the interim financial statements and provisional amounts have been used to record the acquisition, based on management's best estimates and taking into account all relevant information available at the time of preparation of the interim financial statements. As updated information is available, further analysis may result in a refinement to the values attributable to assets and liabilities arising on the acquisition.

The following table summarizes the recognized amounts of the identified assets and liabilities, determined provisionally, assumed at the Acquisition Date:

Consideration allocated to:		
Cash and cash equivalents	$	1,230
Trade and other receivables		1,293
Inventories		2,375
Prepaid expenses and deposits		250
Property and equipment		105
Goodwill		6,375
Intangible assets		15,205
Deferred tax assets		14,851
		41,684
Trade and other payables		(1,867)
Deferred tax liabilities		(5,772)
		(7,639)
Total net assets acquired	**$**	**34,045**
Consideration:		
Cash	$	34,045
	$	**34,045**

The Company incurred acquisition-related costs of $960, of which $757 have been included in general and administrative expenses in the six months ended June 30, 2014.

Goodwill of $6,375 is attributable mainly to the skills and technical talent of VideoIQ's work force and synergies expected to be achieved from integrating VideoIQ's commercially proven analytics technology into the Company's innovative line of products. None of the goodwill recognized is expected to be deductible for tax purposes.

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

4. Business combination (continued)

In the three months ended June 30, 2014, the Company revised its preliminary estimate of the fair value of intangible assets, deferred tax assets and deferred tax liabilities, resulting in an increase of intangible assets of $15,205, deferred tax assets of $14,851 and deferred tax liabilities of $5,772. The Company also reduced the acquisition-date fair value of the consideration transferred by $2,114 to reflect amounts accounted for separately from the business combination. The aggregate difference of these adjustments was recorded as a $24,189 reduction of goodwill.

5. Inventories

		June 30, 2014		December 31, 2013
Raw materials, work in progress	**$**	**22,207**	$	11,091
Finished goods		**9,859**		8,353
	$	**32,066**	$	19,444

6. Property and equipment

The Company's property and equipment gross carrying amounts and accumulated depreciation are as follows:

	Manufacturing	Leasehold Improvements	Furniture & Equipment	Demo	Computer	Tooling	**Total**
Cost							
Balance, January 1, 2013	1,567	1,237	1,028	1,010	824	244	**5,910**
Additions	1,715	1,441	580	1,102	987	183	**6,008**
Work in progress	**-**	311	-	-	-	92	**403**
Acquired through business combination	-	-	22	-	-	-	**22**
Balance, December 31, 2013	3,282	2,989	1,630	2,112	1,811	519	**12,343**
Additions	107	478	960	1,236	748	-	**3,529**
Work in progress	-	94	-	-	-	53	**147**
Acquired through business combination	7	33	43	-	17	5	**105**
Effect of movements in exchange rates	(2)	6	(10)	(20)	(3)	5	**(24)**
Balance, June 30, 2014	**3,394**	**3,600**	**2,623**	**3,328**	**2,573**	**582**	**16,100**

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

6. Property and equipment (continued)

	Manufacturing	Leasehold Improvements	Furniture & Equipment	Demo	Computer	Tooling	**Total**
Accumulated depreciation							
Balance, January 1, 2013	(331)	(354)	(441)	(362)	(615)	(138)	**(2,241)**
Depreciation expense	(250)	(419)	(130)	(479)	(186)	(70)	**(1,534)**
Balance, December 31, 2013	(581)	(773)	(571)	(841)	(801)	(208)	**(3,775)**
Depreciation expense	(210)	(442)	(122)	(490)	(258)	(57)	**(1,579)**
Effect of movements in exchange rates	-	(3)	(2)	(3)	2	4	**(6)**
Balance, June 30, 2014	**(791)**	**(1,218)**	**(695)**	**(1,334)**	**(1,057)**	**(261)**	**(5,356)**

	Manufacturing	Leasehold Improvements	Furniture & Equipment	Demo	Computer	Tooling	Total
Carrying amounts							
December 31, 2013	2,701	2,216	1,059	1,271	1,010	311	8,568
June 30, 2014	**2,603**	**2,382**	**1,928**	**1,994**	**1,516**	**321**	**10,744**

7. Goodwill and intangible assets

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

		Intangible Assets			
	Goodwill	Computer Software	Technology	Capitalized Development	**Total**
Cost					
Balance, January 1, 2013	-	544	-	-	**544**
Additions	-	537	-	-	**537**
Work in progress	-	462	-	-	**462**
Acquired through business combination	6,375	-	14,410	-	**20,785**
Effect of movements in exchange rates	183	-	412	-	**595**
Balance, December 31, 2013	6,558	1,543	14,822	-	**22,923**
Additions	-	214	-	2,590	**2,804**
Acquired through business combination	6,375	-	15,205	-	**21,580**
Effect of movements in exchange rates	16	-	(259)	-	**(243)**
Balance, June 30, 2014	**12,949**	**1,757**	**29,768**	**2,590**	**47,064**

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

7. Goodwill and intangible assets (continued)

		Intangible Assets			
	Goodwill	Computer Software	Technology	Capitalized Development	**Total**
Accumulated amortization					
Balance, January 1, 2013	-	(501)	-	-	**(501)**
Amortization expense	-	(85)	(988)		**(1,073)**
Balance, December 31, 2013	-	(586)	(988)	-	**(1,574)**
Amortization expense	-	(136)	(1,529)	-	**(1,665)**
Effect of movements in exchange rates	-	-	38	-	**38**
Balance, June 30, 2014	**-**	**(722)**	**(2,479)**	**-**	**(3,201)**
Carrying amounts					
December 31, 2013	6,558	957	13,834	-	21,349
June 30, 2014	**12,949**	**1,035**	**27,289**	**2,590**	**43,863**

8. Share capital

Authorized capital consists of an unlimited number of common shares without par value.

At June 30, 2014, issued share capital comprised 46,488,649 common shares (December 31, 2013 – 42,955,079).

During the six months ended June 30, 2014, 85,290 options were exercised at an average price of $3.71 per option, which resulted in the issuance of 85,290 shares and the transfer of $132 from the equity compensation reserve to share capital.

On April 8, 2014, the Company issued 3,448,280 common shares at a price of $29.00 per common share. Gross proceeds totaled $100,000 and the Company incurred share issuance costs of $5,489.

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

9. Share-based payment arrangements

The Company has adopted an amended and restated incentive sercurity 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 stock 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 equity-based awards is limited to 10% of the issued and outstanding common shares from time to time on a non-diluted basis.

(a) Stock options

The terms and conditions for acquiring and exercising stock 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 stock 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 stock options granted is based on the fair value of stock options granted, measured using the Black-Scholes model.

The changes in stock options during the six months ended June 30, 2014 and 2013 were as follows:

	June 30, 2014		June 30, 2013	
	Number of Options	**Average exercise price**	Number of options	Average exercise price
Outstanding, beginning of period	**2,485,890**	**$ 9.97**	4,151,400	$ 3.08
Options granted	**264,500**	**29.54**	754,000	12.88
Options exercised	**(85,290)**	**3.71**	(2,229,260)	1.05
Options forfeited	**(516,375)**	**10.83**	(10,000)	4.50
Outstanding, end of period	**2,148,725**	**$ 12.44**	2,666,140	$ 4.24
Exercisable, end of period	**680,183**	**$ 7.05**	477,015	$ 2.83

The weighted average share price at the date of exercise for stock options exercised during the six months ended June 30, 2014 was $23.40 (2013 - $14.88).

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

9. Share-based payment arrangements (continued)

The weighted average grant date fair value of a stock option granted during the six months ended June 30, 2014 is $11.10 (2013 - $4.80) per share. The stock option valuations were determined using the following assumptions:

	Six months ended June 30, **2014**	2013
Forfeiture rate	**10%**	10%
Weighted average share price at grant date	**$29.54**	$12.81
Average risk-free interest rate	**1.68%**	1.35%
Expected life	**5 years**	5 years
Annualized volatility	**40%**	41%
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 exercising RSUs are set by the Board of Directors, including the number of RSUs granted and the vesting conditions of the RSUs.

The total number of RSUs outstanding as at June 30, 2014 was nil.

10. Segment information

The Company operates in one segment in which it develops, manufactures, markets and sells high definition surveillance systems.

Revenue is earned in six main regions: Canada, United States, United Kingdom, EMEA (Europe, the Middle East and Africa combined), Asia Pacific and Latin America. The following is a breakdown of revenue by geographic areas based on customers' locations:

	Three months ended June 30, **2014**	2013	Six months ended June 30, **2014**	2013
Canada	**$ 4,244**	$ 3,563	**$ 8,355**	$ 6,375
United States	**35,038**	18,187	**63,401**	35,119
United Kingdom	**4,514**	2,553	**9,218**	5,129
EMEA	**14,783**	11,133	**27,926**	18,307
Asia Pacific	**4,777**	2,145	**8,001**	3,655
Latin America	**1,825**	1,636	**4,030**	2,659
Total revenues	**$ 65,181**	$ 39,217	**$ 120,931**	$ 71,244

Non-current assets are held in Canada and the United States.

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

11. Seasonality

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 benefits from increased spending as the annual budget cycle comes to a close. Management expects that the seasonality impact will continue in the foreseeable future.

12. Financial instruments

The Company’s financial instruments consist of cash and cash equivalents, deposits, trade and other receivables and trade and other payables. The carrying values of these financial instruments approximate their fair values because of the short-term nature of these instruments.

13. Related parties

(a) Key management personnel

Key management personnel comprise the Company’s executive officers and its directors. During the period, compensation of key management personnel was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Short-term employee benefits	**$ 660**	$ 569	**$ 1,606**	$ 1,016
Termination benefits	**-**	-	**435**	-
Share-based payments	**598**	344	**1,164**	689
	$ 1,258	$ 913	**$ 3,205**	$ 1,705

(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 in the period were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	**2014**	2013
Sale of goods and services	**$ 109**	$ 102	**$ 302**	$ 130
Purchase of goods	**37**	-	**85**	56

At June 30, 2014, $65 of sales to related parties was included in trade and other receivables (December 31, 2013 – $8), and $12 of purchases from related parties was included in trade and other payables (December 31, 2013 – $1).