



News Release

TSXV, Tier 1: "NTS"

OTCQX: "NTSFF"

Nanotech Security Announces Third Quarter Fiscal 2016 Results

Update on Progress with Asian Customer

VANCOUVER, British Columbia – August 16, 2016 – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF), ("Nanotech" or the "Company") today released its financial results for the three and nine months ended June 30, 2016. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Financial Highlights during the Third Quarter

- **Revenue at \$1.2 million down slightly from \$1.4 million in the same period last year.** Security Features contributed revenues of \$497,000 largely from development contracts and Surveillance delivered \$661,000, reflecting strong revenues from surveillance vans.
- **Gross margin at 47% down from 51% in the same period last year.** Gross margins continue to reflect strong margins on the Security Features division's development contracts and Surveillance division sales.
- **Cash balance of \$4.2 million at end of Q3.** The Company completed raising \$4.2 million in unsecured senior debentures convertible into common shares at a price of \$1.25. The debentures bear interest at 12% and come due May 31, 2018 and will fund operations and working capital.

Strategic Highlights during the Third Quarter

- **To supply security feature for major new banknote.** In May 2016, the Company announced that it had completed the supplier acceptance process and commenced production and delivery of Nanotech's proprietary colour-shifting optical thin film ("OTF") that will be used as a windowed security thread in banknotes for a large Asian country. At the end of the third quarter, the initial deliveries continued to be scrutinized and reviewed by the customer as they worked to ensure the deliveries were seamlessly integrated into their production facility. As a result, it is anticipated that this process will continue in the fourth quarter (ending September 2016) with the expectation that production will resume either late in the quarter or early in fiscal 2017.
- **Provided technology to authenticate tickets at UEFA EURO 2016® football championship.** Nanotech's KolourOptik® technology was chosen for admission tickets, due to its intense high definition (iHD) full colour imaging capabilities and anti-counterfeiting security features – replacing older hologram technology used at past events.
- **Paid optical variable device development contract progresses.** The contract was announced in February 2015 and calls for the incorporation of an optical variable device into future banknotes and is coming to a successful completion. Nanotech has already begun working with the customer to expand the scope in a future contract moving the Company closer to final selection for a major banknote.



- **Paid KolourOptik development contract progresses.** The three phased contract announced this past February 2016 calls for KolourOptik technology on a banknote. To date, the development is proceeding smoothly and on course with Nanotech's internal schedule.

Doug Blakeway, Nanotech's Chairman and CEO, commented, "The third quarter was impacted by the delays with our Asian customer accepting product and integrating it into their production process. Although we did not anticipate these delays, we have made progress subsequent to the quarter and remain confident we can work through them over the next few months and that once the production resumes, the Company will be well positioned to deliver throughout the life of this banknote."

Select Financial Information

All results are reported in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

	Three months ended				Nine months ended			
	June 30,		\$	%	June 30,		\$	%
	2016	2015	Change	Change	2016	2015	Change	Change
Revenue	\$ 1,157,905	\$ 1,359,088	\$ (201,183)	(15%)	\$ 3,615,365	\$ 4,424,440	\$ (809,075)	(18%)
Gross profit	543,711	698,304	(154,593)	(22%)	1,785,133	1,944,574	(159,441)	(8%)
Gross profit %	47%	51%			49%	44%		
Net loss	(1,957,434)	(1,279,642)	(677,792)	53%	(6,153,779)	(3,105,435)	(3,048,344)	98%
Net loss per share								
Basic and diluted	(0.04)	(0.03)	(0.01)	40%	(0.12)	(0.06)	(0.05)	81%
Weighted average number of common shares								
Basic and diluted	53,612,215	49,125,684			53,470,153	48,735,041		
Net cash used in operating activities	(1,137,647)	(537,418)	(600,229)	112%	(3,023,063)	(2,805,941)	(217,122)	(8%)

	June 30, 2016	September 30, 2015	\$ Change	% Change
Total assets	\$ 26,094,602	\$ 27,783,859	\$ (1,689,257)	(6%)
Total long term liabilities	6,628,858	3,126,363	3,502,495	112%
Total equity	17,941,414	22,924,873	(4,983,459)	(22%)

Revenues for the three months ended June 30, 2016 decreased by \$201,000 to \$1,158,000 compared to \$1,359,000 in the same period last year. This included the Security Features division delivering revenue of \$497,000 compared to \$865,000 during the same period last year, primarily from development contracts. The development contracts continue to progress well and are advancing both our KolourOptik and colour-shifting OTF technologies to be integrated into future banknotes.

OTF production continued to be negatively impacted as the Company continues to focus on a large Asian issuing authority. On November 17, 2015 the Company announced the signing of a Memorandum of Understanding which contemplates an operational agreement with Hueck Folien to collaborate in the production of volume colour-shifting OTF. This integration has continued to consume internal resources in bringing the new manufacturing facility online. In May 2016 the Company completed the supplier acceptance process with the large Asian issuing authority and commenced production and delivery of colour-shifting OTF through its licensed



production partner Hueck Folien. To date, the initial deliveries continue to be scrutinized and reviewed by the customer as they work to ensure the deliveries are seamlessly integrated into their production facility. As a result, it is anticipated that this process will continue through the fourth quarter with the expectation that production should resume either late in the quarter or early fiscal 2017. Although there have been unforeseen delays, management is confident that once the production resumes, the Company will be well positioned to deliver throughout the life of this banknote.

The Surveillance division achieved revenues of \$661,000 for the three months ended June 30, 2016 compared to \$494,000 during the same period last year. This increase reflected strong revenues from surveillance vans.

Revenues for the nine months ended June 30, 2016 decreased by \$809,000 to \$3,615,000 compared to \$4,424,000 in the same period last year. This included the Security Features division delivering revenue of \$1,712,000 compared to \$2,775,000 during the same period last year, primarily from development contracts. The OTF production continued to be negatively impacted as the team focused on bringing the new production facility online.

The Surveillance division achieved revenues of \$1,904,000 for the nine months ended June 30, 2016 compared to \$1,649,000 during the same period last year. This modest increase reflected growth in the number of surveillance vans delivered during the period.

Gross margin for the three months ended June 30, 2016 decreased by \$155,000 to \$544,000 compared to \$698,000 in the same period last year. Overall, the gross margin percentage was 47% for the three months ended June 30, 2016, a slight decrease from the 51% in the same period last year. The gross margins continue to reflect strong margins on the Security Features division's development contracts and Surveillance division sales partially offset by an inventory write-off of \$82,087.

Gross margin for the nine months ended June 30, 2016 was \$1,785,000, consistent with \$1,945,000 in the same period last year. Overall, the gross margin percentage reached 49% for the nine months ended June 30, 2016, an improvement from the 44% in the same period last year. This increase is again reflected in higher margins on the Security Features division's development contracts and Surveillance division sales partially offset by an inventory write-off of \$119,126.

Research and development expenditures for the three months ended June 30, 2016 increased by \$160,000 to \$1,307,000 compared to \$1,146,000 in the same period last year. This is primarily as a result of an increase in depreciation and amortization of \$198,000 reflecting a 2015 revision of the Company's depreciation policy. Research and development activity for the three months ended June 30, 2016 continued to focus on bringing the new Hueck Folien production facility online as well as new security features targeted for the banknote market.

Research and development expenditures for the nine months ended June 30, 2016 increased by \$627,000 to \$4,050,000 compared to \$3,423,000 in the same period last year. This is primarily a result of an increase in depreciation and amortization of \$682,000 reflecting a 2015 revision of the Company's depreciation policy. Research and development activity for the nine months ended June 30, 2016 also continued to focus on bringing the new Hueck Folien production facility online as well as new security features targeted for the banknote market.

General and administration expenditures for the three months ended June 30, 2016 were \$664,000, an increase of \$149,000 compared to \$514,000 in the same period last year which reflected higher office rent, overheads and an increase in stock based compensation.

General and administration expenditures for the nine months ended June 30, 2016 were \$2,013,000, an increase of \$282,000 compared to \$1,731,000 in the same period last year which again reflected higher office



rent, overheads and an increase in stock based compensation.

Sales and marketing expenditures for the three months ended June 30, 2016 were \$598,000, an increase of \$12,000 compared to \$586,000 in the same period last year which was due to increased sales and marketing activity related to the Security Features division, including increased salaries and international travel.

Sales and marketing expenditures for the nine months ended June 30, 2016 were \$1,800,000, an increase of \$389,000 compared to \$1,410,000 in the same period last year, which again was due to increased sales and marketing activity related to the Security Features division, including increased salaries and international travel.

The net loss for the three months ended June 30, 2016 was \$1,957,000 compared to \$1,280,000 during the same period last year. The increase in net loss is reflected in lower sales, an increase in general and administrative costs and sales and marketing activities, and an increase in non-cash amortization and foreign exchange. The prior year figures also include a \$290,000 gain on the revaluation of contingent shares.

The net loss for the nine months ended June 30, 2016 was \$6,154,000 compared to \$3,105,000 during the same period last year. The increase in net loss is reflected in an increase in general and administrative costs and sales and marketing activities, and an increase in non-cash amortization and foreign exchange. The prior year figures also include a \$1,450,000 gain on the revaluation of contingent shares.

The Company ended the quarter with approximately \$4,173,000 in cash and cash equivalents, up from \$3,022,000 at September 30, 2015. Management has reviewed its projected funding requirements and expects that, through the generation and collection of revenues and/or raising additional financing, the Company will maintain sufficient liquidity.

Outlook

The Company anticipates demand for its security features will continue to grow, and expects to achieve significant progress in the development of customer channels and further commercialization of Nanotech’s KolourOptik technology. Management continues to believe that the Company is well positioned to supply its large Asian customer, however the additional time required for product acceptance and integration into their production processes has taken longer than anticipated. As a result, management believes that its goal to double annual revenues has been delayed by three to four months. Once production resumes, it is expected to ramp up through the fall (Q1 / Fiscal 2017) to supply this customer with significant colour-shifting OTF through 2017 and beyond.

Achieving these results is not certain and involves known and unknown risks that may cause actual results to differ materially from this goal. These risks and uncertainties include, among other things, risks related to: uncertainty of amount and timing of purchase orders, the ability to complete a definitive agreement with the planned European co-production partner, market acceptance of KolourOptik technology and our ability to maintain sufficient liquidity through June 30, 2017 to facilitate any business ramp-up. These and other risk factors are further discussed under the “Business Risks and Uncertainties” segment of the September 30, 2015 MD&A.



Nanotech Security Corp.

Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

Three and nine months ended June 30, 2016 and 2015

(In Canadian dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 1,157,905	\$ 1,359,088	\$ 3,615,365	\$ 4,424,440
Cost of sales	614,194	660,784	1,830,232	2,479,866
	543,711	698,304	1,785,133	1,944,574
Expenses				
Research and development	1,306,598	1,146,41	4,049,817	3,422,550
General and administration	663,537	514,200	2,013,024	1,731,022
Sales and marketing	597,831	585,503	1,799,712	1,410,397
	2,567,966	2,246,119	7,862,553	6,563,969
Loss before other expenses	(2,024,255)	(1,547,815)	(6,077,420)	(4,619,395)
Other expenses (income)				
Foreign exchange (gain) loss	27,067	(8,321)	103,283	(160,192)
Finance expense	68,909	30,148	135,873	96,232
Gain on revaluation of contingent shares	-	(290,000)	-	(1,450,000)
	95,976	(268,173)	239,156	(1,513,960)
Loss before income taxes	(2,120,231)	(1,279,642)	(6,316,576)	(3,105,435)
Deferred income tax recovery	162,797	-	162,797	-
Net loss	(1,957,434)	(1,279,642)	(6,153,779)	(3,105,435)
Other comprehensive income (loss):				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss) on translation of foreign operation	5,665	7,524	38,912	(76,239)
Total comprehensive loss for the period	\$ (1,951,769)	\$ (1,272,118)	\$ (6,114,867)	\$ (3,181,674)
Loss per share				
Basic and diluted	\$ (0.04)	\$ (0.03)	\$ (0.12)	\$ (0.06)
Weighted average number of common shares:				
Basic and diluted	53,612,215	49,125,684	53,470,153	48,735,041

Nanotech Security Corp.

Condensed Consolidated Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	June 30, 2016	September 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,172,908	\$ 3,021,928
Accounts receivable	524,704	879,266
Inventory	381,892	770,342
Prepaid expenses and other assets	134,890	76,840
	<u>5,214,394</u>	<u>4,748,376</u>
Property, plant and equipment	17,787,651	18,921,396
Intangible assets	1,704,099	2,725,629
Goodwill	1,388,458	1,388,458
	<u>\$ 26,094,602</u>	<u>\$ 27,783,859</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,524,330	\$ 1,732,623
	<u>1,524,330</u>	<u>1,732,623</u>
Long term liabilities:		
Note payable	3,000,000	3,000,000
Convertible debentures	3,523,173	-
Tenant inducement	105,685	126,363
	<u>8,153,188</u>	<u>4,858,986</u>
Shareholders' equity		
Share capital	44,930,433	44,666,497
Share based payment reserve	2,151,077	1,726,780
Equity component of convertible debentures	443,175	-
Deficit	(29,443,019)	(23,289,240)
Accumulated other comprehensive loss	(140,252)	(179,164)
	<u>17,941,414</u>	<u>22,924,873</u>
	<u>\$ 26,094,602</u>	<u>\$ 27,783,859</u>



Nanotech Security Corp.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

Three and nine months ended June 30, 2016 and 2015
(in Canadian Dollars)

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Operating activities:				
Net loss	\$(1,957,434)	\$(1,279,642)	\$(6,153,779)	\$(3,105,435)
Items not involving cash:				
Depreciation and amortization	772,364	592,688	2,320,433	1,754,246
Deferred income taxes	(162,797)	-	(162,797)	-
Share based compensation	187,263	160,205	508,233	552,873
Amortization of tenant inducement	(6,893)	-	(20,678)	-
Accretion of convertible debentures	8,856	-	8,856	-
Gain on revaluation of contingent shares	-	(290,000)	-	(1,450,000)
Non-cash working capital changes	20,994	279,331	476,669	(557,625)
Cash used in operating activities	(1,137,647)	(537,418)	(3,023,063)	(2,805,941)
Investing activities:				
Purchase of property and equipment, net of tax credits	42,664	(407,663)	(166,205)	(666,347)
Cash provided by (used in) investing activities	42,664	(407,663)	(166,205)	(666,347)
Financing activities:				
Proceeds on issuance of convertible debentures, net of costs	4,120,289	-	4,120,289	-
Issuance of shares for options exercised	-	-	180,000	-
Issuance of shares for warrants exercised	-	-	-	735,975
Tenant inducement	-	133,255	-	133,255
Cash provided by financing activities	4,120,289	133,255	4,300,289	869,230
Effect of foreign exchange on cash and cash equivalents	5,862	8,718	39,959	(80,672)
Increase (decrease) in cash and cash equivalents	3,031,168	(803,108)	1,150,980	(2,683,730)
Cash and cash equivalents, beginning of period	1,141,740	2,084,023	3,021,928	3,964,645
Cash and cash equivalents, end of period	\$ 4,172,908	\$ 1,280,915	\$ 4,172,908	\$ 1,280,915



Conference Call Details:

DATE:	Tuesday, August 16, 2016	Time: 5:00 PM Eastern Time
DIAL IN NUMBER:	Toll free (Canada and US): 1-888-417-8531 Conference ID: 8280288	Alternate number: 1-719-325-2487
TAPED REPLAY:	Toll free (Canada and US): 1-877-870-5176 Replay available until September 16, 2016 Replay Pin number: 8280288	Alternate number: 1-858-384-5517 Replay Pin number: 8280288
WEBCAST:	http://public.viavid.com/index.php?id=120813	

FORWARD-LOOKING STATEMENTS

This news release contains forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to anticipated developments in our operations in future periods, the adequacy of our financial resources, and events or conditions that may occur in the future. When used in this news release, the words such as “plan”, “expects”, “pursue”, “will”, and similar expressions or statements generally identify forward-looking statements. These statements reflect our current expectations. The principal risks related to these forward-looking statements are that the Company’s intellectual property claims will not prove enforceable to provide the necessary commercial protection, the Company is not able to attract the necessary capital, and/or that the Company’s products will not be able to displace entrenched hologram, metalized strip tagging, or other conventional anti-counterfeiting technologies sufficiently to allow for profitability. In light of the many risks and uncertainties, there can be no assurance that the forward-looking statements contained in this news release will be realized.

For additional information with respect to certain of these risks or factors, reference should be made to the “Business Risks and Uncertainties” section of the MD&A and notes to the consolidated financial statements for the year ended September 30, 2015, as well as with the Company’s continuous disclosure materials filed from time-to-time with Canadian securities regulatory authorities, which are available online at www.sedar.com. Nanotech disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law, rule or regulation. Undue reliance should not be placed on forward-looking statements.

About Nanotech Security

Through its Security Features and Surveillance divisions, Nanotech Security Corp. is becoming a leading innovator in the design and production of advanced security products and surveillance solutions for a number of years. The Company’s Security Features division produces intense, high definition optically-variable images and colour shifting optical thin films, which are ideal for authentication of currency, passports, and identification cards in addition to distinguishing branded goods from counterfeits. Activated by a simple tilt or rotation, with higher resolutions than the best LED-displays, Nanotech’s KolourOptik® and Plasmogram™ optically-variable image products are nanotechnology-based product platforms originally inspired by the unique optical properties of the iridescent wings of the Blue Morpho butterfly. The Company’s Surveillance division designs, manufactures, and sells sophisticated surveillance and intelligence gathering communications and forensic equipment and conducts surveillance training for the law enforcement and intelligence community in the United States and Canada.



Additional information about Nanotech can be found at the Company's website www.nanosecurity.ca, the Canadian disclosure filings website www.sedar.com or the OTCMarkets disclosure filings website www.otcmarkets.com.

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Nanotech Security Corp:

Doug Blakeway
dblakeway@nanosecurity.ca
+1.604.678.5775

Canada Investor Relations:

Sean Peasgood
sean@SophicCapital.com
+1.416.565.2805

Media Contact:

Jackie Henry
jhenry@nanosecurity.ca

U.S. Investor Relations:

Matthew Selinger
mselinger@threepa.com
+1.817.310.8776

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