

## NANOTECH SECURITY CORP. TO ACQUIRE FORTRESS OPTICAL FEATURES LTD., A LEADING PRODUCER OF BANKNOTE SECURITY FEATURES

*Acquisition will be a Platform to Accelerate Commercialization Opportunities for Nanotech's KolourOptik Nanotechnology with Proceeds from Planned \$9M-\$16M Equity Offering.*

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Vancouver, British Columbia – August 26, 2014 – Nanotech Security Corp. (TSXV:NTS) (OTCQX:NTSFF) ("Nanotech" or "the Company") today announces an agreement with Fortress Global Securities Sarl, a subsidiary of TSX listed Fortress Paper Ltd. ("Fortress Paper"), to purchase 100% of Fortress Optical Features Ltd. ("Fortress Optical Features"), a producer of optical thin film ("OTF") used as security threads in banknotes in several countries. The definitive share and loan purchase agreement (the "Purchase Agreement") provides for Nanotech to acquire 100% of the issued and outstanding securities of Fortress Optical Features for consideration of up to \$17.5 million, of which 3 million Nanotech shares (up to \$4.5 million) is contingent on the future operating performance of Fortress Optical Features. Nanotech has also entered into an agreement with Canaccord Genuity Corp. ("Canaccord Genuity") to act as sole lead manager and book-runner, and including Craig-Hallum Capital Group, in respect of a private placement of subscription receipts of the Company convertible into Nanotech common shares ("Shares") and Share purchase warrants ("Warrants") in a targeted range of \$9.0 million to \$16.0 million as more fully described below. To date, subscription agreements in excess of \$8.0 million have been received which is an amount sufficient to pay the cash portion of the acquisition under the Purchase Agreement. All monetary amounts are in Canadian dollars.

### HIGHLIGHTS

- The acquisition of Fortress Optical Features will serve as a platform to accelerate commercialization of Nanotech's KolourOptik technology by integrating it into Fortress Optical Features' product line as an addition of KolourOptik images to the OTF threads.
- Nanotech will acquire Fortress Optical Features' state-of-the-art building and vacuum metal deposition equipment, located near Ottawa.
- The transaction combines complementary businesses that can leverage established banknote customer relationships to accelerate market entry and leapfrog competitive technologies. To date, Fortress Optical Features' technology has been utilized by 11 international currencies.
- Fortress Optical Features' CEO Igi LeRoux, and COO, Ron Ridley, will be integrated into the Company's senior management.
- Fortress has the right to appoint one director to the Nanotech board and Nanotech will appoint a director to a Fortress affiliate concerned with security paper production.
- Cash portion of the purchase price to be funded by a subscription receipts offering at \$1.50, each convertible into a Share and one-half Warrant as fully described below.
- Concurrent financing and acquisition closings are scheduled for September 10, 2014.

"We believe this will be a transformational transaction for Nanotech", stated Doug Blakeway, President and CEO of Nanotech. "By layering our KolourOptik nanotechnology onto Fortress Optical Features' security threads which are currently used in numerous currencies, we will create a next-generation product for the banknote industry".

Mr. Blakeway added, "Additionally, the transaction will expand Nanotech's current IP portfolio for optical security features to include Fortress Optical Features' 14 current patent applications which should enhance our ability to compete in other commercial spaces such as passports as well as product branding and authentication".

Fortress Optical Features' core business is optical thin film material used in security threads incorporated in banknotes in several countries. Originally developed by the Bank of Canada, and subsequently sold to Fortress

Optical Features in 2011, this technology was deployed on Canadian banknotes from 1989 until 2011 as well as ten other international currencies. In the twelve month period ending December 31, 2013 Fortress Optical Features generated approximately \$2.3 million in revenue and its existing plant could service production of about eight times the level of production which generated this revenue.

Fortress Optical Features recently invested \$4.2 million to renovate its existing production facility and added \$1.0 million in new equipment over the past few years. As part of the transaction, Nanotech will acquire Fortress Optical Features' state-of-the-art production facility and high technology OTF production equipment. Fortress Optical Features is currently pursuing business in some of the world's largest countries and sees potential new opportunities internationally. According to Secura Monde International, the top five banknote producing economies include China, India, the European Union, the United States and Indonesia.

## **TRANSACTION DETAILS AND CLOSING CONDITIONS**

Under the terms of the Purchase Agreement, Nanotech will pay up to \$17.5 million to be satisfied by a combination of \$7 million cash, 5 million common shares of Nanotech and a secured vendor take-back note of \$3 million with an interest rate of 4% per annum. Of this consideration 2 million shares will have a four month hold period from closing and 3 million shares will be escrowed and shall be released based on certain specific performance milestones based on sales of product to new customers over up to 5 years. Shares may be released early in the event of a sale of the business or change of control of Nanotech. Contingent shares not released after 5 years will be cancelled. Details of the share release formula will be found in the Purchase Agreement to be filed at [www.sedar.com](http://www.sedar.com).

All Shares have a deemed value of \$1.50 and the acquisition and financing transactions do not constitute a change of business nor a change of control for Nanotech but will be treated under TSX Venture Exchange policies as a fundamental acquisition.

Completion of the transaction will be subject to customary closing conditions, including receipt of all regulatory approvals of the TSXV as well as the listing of the common shares issuable in connection with the transaction, including those underlying the subscription receipts. If Nanotech elects to terminate the acquisition in reliance on an allowable condition, a \$600,000 break fee payable in Shares is due to Fortress Paper. Nanotech and Fortress Optical Features anticipate the transaction and financing will close on or about September 10, 2014.

## **RELATED AGREEMENT DETAILS**

As part of Nanotech's acquisition of Fortress Optical Features, the parties and/or their affiliates have entered into certain ancillary agreements. These include a supply agreement under which Fortress Optical Features will continue to supply OTF security threads to Fortress Paper's Swiss-based Landqart specialty paper division. Landqart will enjoy favoured customer status subject to certain minimum purchase obligations. Under a lease and related shared services agreement, a Fortress Paper affiliate will lease approximately 2/3 of the 100,000 sq ft building being acquired as part of Fortress Optical Features assets and the parties will share the costs of steam production, electrical power, security, and administration services. The \$3 million note is fully secured against Fortress Optical Features shares and assets.

## **SUBSCRIPTION RECEIPT OFFERING**

Nanotech has entered into an agreement with Canaccord Genuity, acting as sole lead manager and sole bookrunner, and including Craig-Hallum Capital Group, to sell on a best-efforts marketed private placement basis, up to approximately 10,667,000 subscription receipts of the Company (the "Subscription Receipts") at a price of \$1.50 per Subscription Receipt (the "Subscription Price"), for gross proceeds to Nanotech of up to \$16.0 million.

The Subscription Receipts will automatically convert, without additional payment, into one common share and one-half of a common share purchase warrant of the Company for each Subscription Receipt upon completion

of the transaction. Subject to certain conditions, each whole purchase warrant will entitle the holder to purchase one common share of Nanotech at a price of \$1.90 for a period of one year from issuance. The warrants are subject to accelerated expiry in the event that the common shares of Nanotech trade on the TSX Venture Exchange at \$2.25 or more for a ten consecutive day period after the four month resale restricted period applicable to the Shares in Canada expires. Completion of the Subscription Receipt offering is subject to certain conditions, including receipt of the approval of the TSXV and all other necessary regulatory approvals.

Net proceeds from the Subscription Receipt offering will be used by the Company to partially fund the purchase price payable for Fortress Optical Features and for general corporate purposes.

The Subscription Price represents a discount of approximately 6% to the closing price of \$1.60 per common share of Nanotech on the TSXV on August 25, 2014 and a discount of approximately 7% over the 30-trading day volume-weighted average price of \$ 1.61 per common share of Nanotech on the TSXV, up to and including August 25, 2014.

## **ABOUT NANOTECH**

Nanotech has been a leading innovator in the design and commercialization of advanced security products using nano-optical devices. Nanotech's KolourOptik™ and Plasmogram™ optically variable devices ("OVD"s) are nanotechnology based product platforms originally inspired by the unique optical properties of the iridescent wings of the Blue Morpho butterfly. Nanotech OVD images produce intense, high definition images that are ideal for brand authentication and for distinguishing currency, documents, personal identification, consumer electronics, etc. from fakes. Nanotech's KolourOptik OVD platform creates unique, easy to authenticate images through interaction of light with nano-sized (billionth of a meter) arrays of surface indentation structures imbedded through algorithms and electron beams into various substrates. These nanostructures create vivid colour images, activated by a simple tilt or rotation, and achieve higher resolutions than the best LED-displays currently available, as well as having optical properties not achievable with holograms.

Additional information about Nanotech and its technologies can be found on its website [www.nanosecurity.ca](http://www.nanosecurity.ca) or the Canadian disclosure filings website [www.sedar.com](http://www.sedar.com) or the OTCMarkets disclosure filings website [www.otcmarkets.com](http://www.otcmarkets.com)

## **ABOUT FORTRESS OPTICAL FEATURES**

Fortress Optical Features produces optically variable thin film security material for the security threads contained in certain previous Canadian banknotes and various other international currency denominations. The film is a unique combination of layered or 'stacked' thin film materials to produce a predictable colour replay. Additional features of the film include differing optical features or colors which appear when the banknote is tilted. The material was developed by the Bank of Canada in coordination with the National Research Council of Canada in the early 1980s and was first used as a patch on Bank of Canada \$20, \$50, \$100 and \$1,000 denominations of Birds of Canada series issued from 1988-1993 and also used on all Canadian Journey denominations issued from 2004 -2011. Fortress Optical Features' high security products are marketed to security paper manufacturers throughout the world.

Additional information about Fortress Optical Features and its technologies can be found on its website [www.fortresspaper.com/company/optical-security-features](http://www.fortresspaper.com/company/optical-security-features)

## **ADVISORIES**

This News Release contains forward-looking statements about the proposed acquisition by Nanotech of all of the issued and outstanding securities of Fortress Optical Features and the related offering of Subscription Receipts. Forward-looking statements are frequently, but not always, identified by words such as "expects",

“anticipates”, “believes”, “intends”, “estimates”, “predicts”, “potential”, “targeted” “plans”, “possible” and similar expressions, or statements that events, conditions or results “will”, “may”, “could” or “should” occur or be achieved.

These forward-looking statements include, without limitation, statements about our market opportunities, strategies, competition, and the Company’s views that its nano-optical technology will continue to show promise for mass production and commercial application. The principal risks related to these forward-looking statements are that the Company’s intellectual property claims will not prove sufficiently broad or enforceable to provide the necessary commercial protection and to attract the necessary capital and/or that the Company’s products will not be able to displace entrenched hologram, metalized strip tagging, and other conventional anti-counterfeiting technologies sufficiently to allow for profitability.

There can be no assurance that the transaction will occur or that the anticipated strategic benefits and operational synergies will be realized. The transaction is subject to the successful closing of the Subscription Receipt offering and to various regulatory approvals, including approvals by the TSXV, and the fulfilment of certain conditions, and there can be no assurance that any such approvals will be obtained and/or any such conditions will be met. The transaction and the Subscription Receipt offering could be modified, restructured or terminated.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect Nanotech's expectations only as of the date of this News Release. Nanotech disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

This News Release is not an offer to sell or the solicitation of an offer to buy any securities in the United States or in any jurisdiction in which such offer, solicitation or sale would be unlawful. The securities described in this News Release have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered or sold within the United States absent registration or an applicable exemption from the registration requirements of such laws.

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*On Behalf of the Board of Directors of  
**Nanotech Security Corp.***

*“Doug H. Blakeway”  
President and CEO*

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