



News Release

TSXV, Tier 1: "NTS"

OTCQX: "NTSFF"

Nanotech Announces Fourth Quarter and Fiscal 2016 Year End Results ***Established Customer Base and Positioned For Growth***

VANCOUVER, British Columbia – December 19, 2016 – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF), ("Nanotech" or the "Company") today released its financial results for the fourth quarter and year ended September 30, 2016.

Financial Highlights from 2016

- **Revenue for the full year amounted to \$5.1 million, consistent with the prior year.** The Optics business segment contributed revenues of \$2.9 million compared to \$3.1 million in the prior year. 2016 revenues were negatively impacted by the corporate focus on integrating a new outsourcing production partner.
- **Gross margin improved to 55% from 43% in the same period last year.** The improvement reflects the increased mix of higher margin development contract revenue.
- **Cash used in operations** increased to \$3.9 million from \$3.4 million in the prior year. The increase in cash used was to support sales and marketing activities in the banknote market.
- **Cash balance of \$3.3 million compared to \$3.0 million in the prior year.** The Company raised \$4.2 million in unsecured senior debentures convertible into common shares at a price of \$1.25. The debentures bear interest at 12%, come due May 31, 2018 and will fund operations and working capital.

Strategic Highlights from 2016

- **To supply security feature for major new banknote.** In May 2016, the Company completed the supplier acceptance process with an Asian issuing authority and had commenced production and delivery of colour-shifting optical thin film ("OTF") through its manufacturing partner Hueck Folien GmbH ("Hueck"). To date, the Company has continued to work with its Asian customer to finalize the product specifications and integrate the Company's OTF into the Asian customer's own production facility. The customer continues to scrutinize and review initial deliveries as they work to ensure the product is seamlessly integrated into their production facility. Continued progress has been made over the past few months and all parties are optimistic that volume production will commence in the near term. Although there have been unforeseen delays, Nanotech's management remains confident that once production resumes, the Company will be well positioned to deliver throughout the life of this banknote.
- **Paid development contracts are progressing well.** The Company currently derives the vast majority of its Optics' segment revenue from development contracts with major issuing authorities. These contracts incorporate both nano-optic and OTF technologies and are focused on developing security

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features for future banknotes. All the projects in 2016 have progressed successfully, and management has already begun working with these issuing authorities to expand the scope of these activities as the Company moves closer to final selection for a future banknote.

- **Provided technology to authenticate tickets at UEFA EURO 2016® football championship.** Nanotech's nano-optic 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.

Doug Blakeway, Nanotech's Chairman and CEO, commented, "2016 has been another successful year for the Company. We have now secured customer relationships with several of the world's largest banknote issuing authorities and are well positioned to develop significant business with each of them in the years ahead. Although we did not anticipate the OTF production delays with our Asian customer, we continue to make progress. All parties remain confident we will be successful, and once the production resumes, the Company will be well positioned to deliver throughout the life of this banknote."

Selected 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				Years ended			
	September 30,		\$	%	September 30,		\$	%
	2016	2015	Change	Change	2016	2015	Change	Change
Revenue	\$ 1,510,744	\$ 728,322	\$ 782,422	107%	\$ 5,126,109	\$ 5,152,762	\$ (26,653)	(1%)
Gross profit	1,036,989	286,501	750,488	262%	2,822,122	2,231,075	591,047	26%
Gross profit %	69%	39%			55%	43%		
Net earnings (loss)	(1,676,026)	(1,565,398)	(110,628)	7%	(7,992,602)	(4,670,833)	(3,321,769)	71%
Net earnings (loss) per share								
Basic	(0.03)	(0.03)		(0.1%)	(0.15)	(0.09)		(55%)
Diluted	(0.03)	(0.03)		(0.1%)	(0.15)	(0.09)		(55%)
Weighted average number of common shares								
Basic	53,686,940	51,392,145			53,524,646	49,404,777		
Diluted	53,686,940	51,392,145			53,524,646	49,404,777		
Net cash used in operating activities	(880,305)	(581,917)	(298,388)	(51%)	(3,903,368)	(3,392,453)	(510,915)	(15%)

	September 30, 2016	September 30, 2015	\$ Change	% Change
Total assets	\$ 24,511,586	\$ 27,783,859	\$ (3,272,273)	(12%)
Total long-term liabilities	3,693,935	3,126,363	567,572	18%
Total equity	16,422,083	22,924,873	(6,502,790)	(28%)



Revenue

Revenues for the year ended September 30, 2016 were \$5.1 million, consistent with \$5.2 million in the prior year. The Optics segment revenue was down \$209,000 compared to last year primarily due to OTF production delays with a large Asian issuing authority. This revenue reduction was partially offset by increased customer development work performed during the year.

During the year, internal OTF productClion was negatively impacted as the Company focused its development team on integrating its colour-shifting OTF technology into an Austrian third-party manufacturer, Hueck, to enable Nanotech to deliver significant volume to a large Asian issuing authority. The Company has signed a supply and collaboration agreement with Hueck that licenses Hueck to manufacture one meter wide colour-shifting OTF exclusively for Nanotech.

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 Asian issuing authority and had commenced production and delivery of colour-shifting OTF through its manufacturing partner Hueck. To date, the Company continues to work with its Asian customer to finalize the product specifications and integrate the OTF into the Asian customer’s own production facility. Initial deliveries continue to be scrutinized and reviewed by the customer as they work to ensure they are seamlessly integrated into their production facility. Continued progress has been made over the past few months and all parties are optimistic that volume production will commence in the near term. Although there have been unforeseen delays, management is still confident that once production resumes, the Company will be well positioned to deliver throughout the life of this banknote.

The Tactical segment’s revenues were up \$183,000 compared to last year which was primarily due to an increase in the foreign exchange rate in the current year. During the year, Tactical improved its revenue mix to include an increase in higher margin surveillance vans, which was offset by a reduction in lower margin product sales.

Gross Margin

Gross margin dollars for the year ended September 30, 2016 increased by \$591,000 or 26% to \$2.8 million compared to \$2.2 million last year. Overall, gross margin percentage reached 55% for the year ended September 30, 2016, an improvement from 43% in the same period last year. The gross margins continue to reflect strong margins on the Optic division’s development contracts.

Research and Development

Research and development expenditures increased by \$1.2 million or 29% to \$5.4 million compared to \$4.2 million last year. This is primarily a result of an increase in depreciation of \$800,000 reflecting a 2015 revision of the Company’s depreciation policy. Research and development activity for the current year continued to focus on bringing the new Hueck production facility online as well as developing new security features targeted for the banknote market.

General and Administration

General and administration expenditures for the year ended September 30, 2016 were \$2.7 million, an increase of \$200,000 compared to \$2.5 million last year which reflected higher office rent, property tax, salaries, and overheads.

Sales and Marketing

Sales and marketing expenditures for the year ended September 30, 2016 were \$2.4 million, an increase of \$485,000 compared to \$1.9 million last year due to increased sales and marketing activity relating to the Optics business unit including increased salaries, stock-based compensation, and international travel.



Net Loss

The net loss for the year was \$7.8 million compared to \$4.7 million during the same period last year. The increase largely reflects higher depreciation and amortization expense of \$750,000, increased financing costs, sales and marketing costs, foreign exchange loss in the current year, and a gain on the revaluation and settlement of contingent shares of \$1.5 million during the previous year.

The Company ended the year with approximately \$3.3 million in cash and cash equivalents, up from \$3.0 million at September 30, 2015. Management has reviewed its projected funding requirements and expects that through the generation and collection of revenues and/or being able to raise additional financing, that the Company will maintain sufficient liquidity.

Outlook

Nanotech is a leader in next-generation anti-counterfeiting products. These products have brand protection and enhancement applications across a wide range of markets including banknotes, secure government documents, commercial branding, and the pharmaceutical industry. Nanotech is initially focusing its efforts on the banknote market due to its high margins and as its established customer base. Management continues to believe that the Company is well positioned to supply its Asian customer, however the additional time required for product acceptance and integration into their production processes has taken longer than anticipated. Once production resumes, it is expected to ramp to supply this customer with significant colour-shifting OTF through the life of the banknote. The Company is focusing on further developing business with its established customer base and as a result, is well positioned to expand its development contract revenue in the years ahead.

Entering 2017, management has established a goal to double its revenue and make significant progress towards becoming cash flow positive. 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 of Hueck to successfully deliver to our Asian customer, our ability to expand our Optics development revenue and our ability to maintain sufficient liquidity through September 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, 2016 MD&A.



Nanotech Security Corp.

Consolidated Statements of Operations and Comprehensive Loss

(In Canadian dollars)

	Three months ended September 30,		Years ended September 30,	
	2016	2015	2016	2015
Revenue	\$1,510,744	\$ 728,322	\$ 5,126,109	\$ 5,152,762
Cost of sales	473,755	441,821	2,303,987	2,921,687
Gross profit	1,036,989	286,501	2,822,122	2,231,075
Expenses				
Research and development	1,300,463	735,558	5,350,280	4,158,108
General and administration	642,433	724,109	2,655,457	2,455,131
Sales and marketing	569,546	473,716	2,369,258	1,884,113
	2,512,442	1,933,383	10,374,995	8,497,352
Loss before other expenses (income) and income taxes	(1,475,453)	(1,646,882)	(7,552,873)	(6,266,277)
Other expenses (income)				
Foreign exchange loss (gain)	(24,490)	(114,347)	78,793	(274,539)
Finance expense	225,063	32,863	360,936	129,095
Gain on revaluation of contingent shares	-	-	-	(1,450,000)
	200,573	(81,484)	439,729	(1,595,444)
Loss before income taxes	(1,676,026)	(1,565,398)	(7,992,602)	(4,670,833)
Deferred income tax recovery	-	-	162,797	-
Net loss	(1,676,026)	(1,565,398)	(7,829,805)	(4,670,833)
Other comprehensive income (loss):				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss)				
on translation of foreign operation	(14,258)	(48,376)	24,654	(124,615)
Total comprehensive loss for the period	\$(1,690,284)	\$(1,613,774)	\$(7,805,151)	\$(4,795,448)
Loss per share				
Basic and diluted	\$ (0.03)	\$ (0.03)	\$ (0.15)	\$ (0.09)
Weighted average number of common shares				
Basic and diluted	53,686,940	51,392,145	53,524,646	49,404,777



Nanotech Security Corp.

Consolidated Statements of Financial Position
as at September 30, 2016 and 2015

(In Canadian dollars)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,312,691	\$ 3,021,928
Accounts receivable	597,414	879,266
Inventory	385,753	770,342
Prepaid expenses and other assets	127,719	76,840
	<u>4,423,577</u>	<u>4,748,376</u>
Property, plant and equipment	17,338,312	18,921,396
Intangible assets	1,361,239	2,725,629
Goodwill	1,388,458	1,388,458
	<u>\$ 24,511,586</u>	<u>\$ 27,783,859</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,395,568	\$ 1,732,623
Note payable	3,000,000	-
	<u>4,395,568</u>	<u>1,732,623</u>
Non-current liabilities:		
Convertible debentures	3,595,142	-
Note payable	-	3,000,000
Tenant inducement	98,793	126,363
	<u>8,089,503</u>	<u>4,858,986</u>
Shareholders' equity		
Share capital	45,210,507	44,666,497
Share based payment reserve	2,041,956	1,726,780
Equity component of convertible debentures	443,175	-
Deficit	(31,119,045)	(23,289,240)
Accumulated other comprehensive loss	(154,510)	(179,164)
	<u>16,422,083</u>	<u>22,924,873</u>
	<u>\$ 24,511,586</u>	<u>\$ 27,783,859</u>



Nanotech Security Corp.

Consolidated Statements of Cash Flows
 Years ended September 30, 2016 and 2015
 (In Canadian dollars)

	Three months ended September 30,		Years ended September 30,	
	2016	2015	2016	2015
Cash flows provided by (used in):				
Operating activities:				
Net loss	\$ (1,676,026)	\$ (1,565,398)	\$ (7,829,805)	\$ (4,670,833)
Items not involving cash:				
Depreciation and amortization	775,253	594,470	3,095,686	2,348,716
Share based compensation	153,553	140,481	661,786	693,354
Deferred income taxes	-	-	(162,797)	-
Amortization of tenant inducement	(6,892)	(6,892)	(27,570)	(11,487)
Accretion of convertible debentures	71,969	-	80,825	-
Gain on revaluation of contingent shares	-	-	-	(1,450,000)
Non-cash working capital changes	(198,162)	255,422	278,507	(302,203)
Cash used in operating activities	(880,305)	(581,917)	(3,903,368)	(3,392,453)
Investing activities:				
Purchase of property and equipment, net of tax credits	17,453	(246,146)	(148,752)	(912,493)
Cash provided by (used in) investing activities	17,453	(246,146)	(148,752)	(912,493)
Financing activities:				
Issuance of shares for options exercised	17,400	-	197,400	-
Proceeds on issuance of convertible debentures, net of costs	-	-	4,120,289	-
Proceeds of private placement, net of share issuance costs	-	2,613,312	-	2,613,312
Issuance of shares for warrants exercised	-	-	-	735,975
Tenant inducement	-	-	-	137,850
Cash provided by financing activities	17,400	2,613,312	4,317,689	3,487,137
Effect of foreign exchange on cash and cash equivalents	(14,765)	(44,236)	25,194	(124,908)
Increase (decrease) in cash and cash equivalents	(860,217)	1,741,013	290,763	(942,717)
Cash and cash equivalents, beginning of period	4,172,908	1,280,915	3,021,928	3,964,645
Cash and cash equivalents, end of period	\$ 3,312,691	\$ 3,021,928	\$ 3,312,691	\$ 3,021,928



Conference Call Details:

DATE:	Monday December 19, 2016	Time: 5:00 PM Eastern Standard Time
DIAL IN NUMBER:	Toll free (Canada and US): 1-877-397-0292 Conference ID: 5876803	Alternate number: 1-719-325-4785
TAPED REPLAY:	Toll free (Canada and US): 1-844-512-2921 Replay available until January 19, 2017 Replay pin number: 5876803	Alternate number: 1-412-317-6671 Replay pin number: 5876803
WEBCAST:	http://public.viavid.com/index.php?id=122266	

FORWARD-LOOKING STATEMENTS

The discussion and analysis in this news release contains forward-looking statements concerning anticipated developments in the Company’s operations in future periods, the adequacy of Nanotech’s financial resources, and the events or conditions that may occur in the future. 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 the Company’s market opportunities, strategies, competition, and the Company’s views that its optics based technologies will continue to show promise for large scale production. Other forward-looking statements imply that the Company will remain capable of being financed and/or will be able to partner development until profitability is eventually realized. The principal risks related to these forward-looking statements are that the Company’s products receive market acceptance, that its intellectual property claims will be sufficiently broad or enforceable to provide the necessary protection or attract the necessary capital.

These forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made. Consequently, all forward-looking statements made in the discussion and analysis of the financial conditions and results of operations or the documents incorporated by reference, are qualified by this cautionary statement and there can be no certainty that actual results or developments the Company anticipates 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 Management Discussion and Analysis and Notes to the Consolidated Financial Statements, 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. Caution needs to be used when taking forward-looking statements into account when evaluating the Company.



About Nanotech Security

Nanotech designs, manufactures and markets nano-optic OVDs and OTF products. These products have brand protection and enhancement applications across a wide range of markets including banknotes, secure government documents, commercial branding, and the pharmaceutical industry. The Company is initially focusing its efforts on the banknote market due to its high margins and its established customer base.

The Company's nano-optic technology employs arrays of billions of nano-indentations that are impressed or embossed onto a substrate material such as polymer, paper, metal, or fabric. By using sophisticated algorithms to direct an electron beam, the Company creates visual images with colour shifting effects such as 3D, perceived movement, and can also display high-definition colours including skin tones, and whites and blacks, which are not possible using holographic technology.

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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