

Nanotech Announces Fourth Quarter and Year-End Results

President & CFO Troy Bullock to Transition to CEO

VANCOUVER, British Columbia – December 19, 2018 – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF) ("Nanotech" or the "Company"), a leading innovator in the research, creation and production of nano-optic structures and colour-shifting materials used in authentication and brand enhancement, today released its financial results for the fourth quarter and year ended September 30, 2018. Additional information concerning the Company, including its audited consolidated financial statements and related management's discussion and analysis for the year ended September 30, 2018, can be found at www.sedar.com. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Highlights from Fiscal 2018

- **Annual revenue of \$9.2 million was 25% higher than 2017.** KolourOptik® and optical thin film ("OTF") development contracts for customized banknote security features continue to drive year-over-year revenue growth.
- **Annual Adjusted EBITDA reached \$2.0 million.** Adjusted EBITDA increased \$831,000 from \$1.2 million in 2017. Adjusted EBITDA margin was 22% for 2018.
- **Cash and short-term investments of \$9.6 million at year end.** The Company finished the year with a strong cash position and no debt.
- **Transformation into a product and marketing company.** During the year the Company announced its first branded product for the banknote market (M²), entered into distribution agreements for the Indian market (more below) and added Joe Vosburgh to the Company as Vice President Marketing. Mr. Vosburgh brings over 20 years experience in the successful development and commercialization of breakthrough technologies.
- **Volume OTF partnering opportunity with Hueck Folien.** Management continues to support its manufacturing partner Hueck Folien in an ongoing effort to improve the quality of their high-volume production. Progress was made in 2018, however at this time the Company is no longer actively trying to qualify as an OTF supplier for the Chinese 100 Yuan banknote, opting to pursue other volume and licensing opportunities with Hueck Folien.
- **Inroads in the tax stamp market.** In 2018 the Company entered into distribution agreements with Holostik India Limited and Kumbhat Holographics Co. Ltd. as Nanotech's authorized distributors and converters for the Indian market. These partners have begun to include Nanotech's KolourOptik and OTF technologies in customer proposals.

"We are pleased to report that we delivered strong 2018 revenues and achieved our 25% year-over-year revenue growth guidance," said Doug Blakeway, Nanotech's CEO and Chairman. "We also exceeded our Adjusted EBITDA margin goal, even while growing and expanding our business in 2018."

Executive Succession Plan Announced

The Company is also pleased to announce CEO Doug Blakeway and the Board have adopted a succession plan under which Mr. Blakeway will transition his responsibilities to current President and CFO Troy Bullock effective January 2, 2019. Mr. Blakeway remains Chairman and will assist the transition of CEO responsibilities through the ensuing few months. Monika Russell, the Company's current Vice President Finance, will assume the role of acting CFO.

“After working with Troy for the last four years I am confident that we have secured the right leadership needed for Nanotech’s next stage of development,” said Mr. Blakeway. “Having brought the Company to early stage commercialization based on a robust technology development platform, now is the time to transition responsibilities to a management team who will execute our vision of monetizing our nano-optical authentication and brand identity technologies. The next stage in our growth will benefit from having an experienced operating executive like Troy building our sales team and product implementation strategy. The Board supports him and the amazing team we have assembled over the years at Nanotech.”

Lead independent Director, Ken Tolmie said, “The Company has achieved great success under Doug’s leadership; we have positive operating cash flow, ongoing R&D contracts with an issuing authority, a solid balance sheet and technology that amazes. We are confident that Troy and his team can and will take us to the next level.”

Troy Bullock also commented, “I am excited by Nanotech’s opportunities and want to thank Doug, the management team, and the Board for the support and confidence they have in me. Nanotech’s operating team is well into planning the advancement of our commercialization strategies. 2019 should be a year of exciting developments.”

2019 Outlook

Nanotech’s position in the banknote market continues to improve. The Company’s strategy to disrupt the multibillion-dollar banknote market and become a key supplier of banknote security features is on track, and the Company is gaining recognition in the industry as having innovative technologies to address the needs of central banks around the world.

In commercial markets, the Company continues to make advancements in positioning its KolourOptik technology as an upgrade and replacement to traditional holograms. In 2019, the Company expects to introduce new and innovative products into the banknote and commercial markets as well as make a significant investment into building out its sales organization.

Management has established the following goals for the 2019 fiscal year:

- **Create a direct salesforce.** Nanotech will create a salesforce to accelerate the sales process by focusing on direct sales in addition to working with key partners. The Company will also put in place a more scalable sales process that will focus on diversifying its customer base and demonstrating its differentiation through commercial sales. To date Nanotech has focused on large opportunities and developing customized offerings on indeterminate timelines. The Company will develop a more traditional sales pipeline, creating the necessary process and channel development strategies to target both small and large customers with defined products.
- **Banknote market.** The Company has two areas of focus in the banknote market:
 - **Contract development activities.** Nanotech currently generates most of its revenue from development contracts with a single customer, with the goal of incorporating a Nanotech security feature on their banknote. This work is progressing well. The customer has narrowed the scope of development activities, which should see the Company move to manufacturing production level volume samples in fiscal 2020.
 - **Expand and enhance our banknote product line.** The Company plans to brand its currently unbranded products, such as OTF, and extend the product line with a new version of M². This will enable central banking customers to have a menu of options for their needs and cost parameters.
- **Commercial markets.** The Company plans to launch a new line of product offerings featuring KolourOptik technology targeted directly at the commercial market. As well, the Company is in the process of securing a reliable and timely manufacturing solution for commercial size quantities of KolourOptik labels. Previously, Nanotech relied on large partners that were prohibitively expensive or took several months for delivery, making selling to commercial customers difficult. By implementing these strategies, Nanotech will be able to sell directly to commercial customers and deliver a complete

security label to showcase customers' brand identity.

- **Financial outlook.** Management continues to believe the Company's technology has significant potential in many markets. Successfully incorporating a security feature into a banknote will lead to longer-term recurring, predictable revenue. Diversification into commercial markets is also expected to stabilize revenues and earnings. In the short-term, while management builds out the sales strategy and product offering, the Company's financial performance may be highly variable. Management has forecasted the following for 2019:
 - **Based on current visibility and conservatively assuming no additional contracts that could be won during the year, revenue may decrease by 10% to 20% compared to 2018.** Nanotech will continue to generate most of its 2019 revenue from development contracts with a single customer. While the Company is getting closer to reaching the goal of incorporating a Nanotech security feature on this customer's banknote, advancement towards this goal corresponds with the customer narrowing the scope of development activities with an intention to select a final security feature. This selection will see the Company move to manufacturing production volume samples in fiscal 2020. While focusing on one security feature is a positive development, because the scope of work has been reduced, overall 2019 revenues may be negatively impacted. Nanotech continues to operate under an agreement to provide up to \$30 million in research and development services. Only \$10.5 million of this revenue has been recognized as of September 30, 2018.
 - **Adjusted EBITDA loss of approximately \$1.0 million.** Potential declining revenue and increased investment in the Company's sales efforts and product offerings could reduce near-term profitability.

With a strong balance sheet, including \$9,613,621 in cash and short-term investments and no debt, the Company is well positioned to develop and pursue its sales strategies in 2019.

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.

	Three months ended			Years ended		
	September 30,			September 30,		
	2018	2017	Change %	2018	2017	Change %
Revenue	\$ 3,085,140	\$ 2,661,660	16%	\$ 9,199,710	\$ 7,343,791	25%
Gross margin	2,417,305	2,242,745	8%	7,147,820	5,914,420	21%
Gross margin %	78%	84%		78%	81%	
Adjusted EBITDA ⁽¹⁾	1,305,841	1,132,249	15%	1,998,785	1,168,222	71%
Net income (loss)	770,086	(300,694)	356%	(46,266)	(4,754,132)	99%
Earnings (loss) per share						
Basic and diluted	0.01	0.00		0.00	(0.08)	
Weighted average number of common shares						
Basic	68,514,245	68,107,758		68,425,673	59,056,353	
Diluted	68,514,245	68,497,093		68,425,673	59,056,353	

⁽¹⁾Adjusted EBITDA is a non-IFRS measure as described in the Non-IFRS Financial Measures section of this News Release.

Financial Position as at:	September 30, 2018	September 30, 2017	% Change
Cash, cash equivalents and short-term investments	\$ 9,613,621	\$ 10,883,919	(12%)
Total assets	\$ 30,229,055	\$ 30,059,624	1%
Total liabilities	1,325,139	1,860,086	(29%)
Total equity	28,903,916	28,199,538	3%

Revenue

Revenues for the year ended September 30, 2018 increased by \$1,855,919 or 25% to \$9,199,710, compared to \$7,343,791 in the same period last year. Revenue growth was primarily due to increased revenue from paid development activities, partially offset by a reduction in OTF revenue.

Gross Margin

Gross margin for the year ended September 30, 2018 increased by \$1,233,400 or 21% to \$7,147,820, compared to \$5,914,420 in the same period last year. Overall, the gross margin percentage was 78% for the year ended September 30, 2018, a decrease from 81% in the same period last year.

Operating Costs

Research and development expenditures for the year ended September 30, 2018 decreased by \$68,007, or 5% to \$1,407,430 compared to \$1,475,437 in the same period last year, due to a larger portion of salaries and other expenses being allocated to cost of sales for increased paid development projects.

General and administration expenditures for the year ended September 30, 2018 increased \$223,310, or 10% to \$2,532,156 compared to \$2,308,846 in the same period last year, due to the expansion of Nanotech's Burnaby, BC laboratory and an increase in salaries expenses associated with additional staff hired in 2018.

Sales and marketing expenditures for the year ended September 30, 2018 were \$2,018,055, a decrease of \$25,459 or 1% which was consistent with \$2,043,514 in the same period last year.

Depreciation and amortization included in operating expenditures for the year ended September 30, 2018 was \$1,485,024, compared to \$2,755,882 in the same period last year. Depreciation included in cost of sales for the year ended September 30, 2018 was \$128,146 compared to \$160,401 for the same period last year. The reduction in depreciation and amortization expenditures reflects the Company's declining balance depreciation policy and the intangible assets being completely amortized as at September 30, 2017.

Other income for the year ended September 30, 2018 was \$371,901, an increase of \$1,556,495 compared to other expenses of \$1,184,594 in the same period last year. The increase was primarily due to the repayment of the convertible debentures and long-term debt in 2017, which reduced the interest expense by \$1,053,254 in the current year, while increased cash on hand resulted in a \$83,002 increase in interest income in the current year. In addition, foreign exchange gains recorded for the year to date were \$419,838 higher than in the same period last year.

Adjusted EBITDA

Adjusted EBITDA for the year ended September 30, 2018 was \$1,998,785, compared to \$1,168,222 during the same period last year. The improvement reflects an increase in development contract revenue, partially offset by an increase in general and administration expenditures.

Net Loss from Discontinued Operations

Net loss from discontinued operations for the year ended September 30, 2018 was \$123,322, compared to a net loss of \$900,279 during the same period last year. The decrease in net loss was primarily due a reduction in overall expenses for the current year as the division was restructured following the Company's decision to sell the business.

Net Loss

Net loss for the year ended September 30, 2018 was \$46,266, compared to a net loss of \$4,754,132 during the same period last year. The decrease in net loss reflects an increase in Adjusted EBITDA in combination with lower interest and amortization expenses.

Non-IFRS Financial Measures

In addition to results reported in accordance with IFRS, the Company discloses Adjusted EBITDA as a supplemental indicator of its financial performance.

The Company defines Adjusted EBITDA as net income (loss) excluding the impact of interest and financing costs (net of interest income), foreign exchange gain (loss), income taxes, depreciation and amortization, share-based compensation, and net income (loss) from discontinued operations. The Company believes Adjusted EBITDA is a useful measure as it provides information to management about the operating and financial performance of the Company and its ability to generate operating cash flow to fund future working capital needs, as well as future growth. Adjusted EBITDA may also be used by investors and analysts for the purpose of valuing the Company.

Readers are cautioned that these non-IFRS definitions are not recognized measures under IFRS, do not have standardized meanings prescribed by IFRS, and should not be construed to be alternatives to net earnings determined in accordance with IFRS or as indicators of performance or liquidity or cash flows. The Company's method of calculating these measures may differ from methods used by other entities and accordingly Nanotech's measures may not be comparable to similarly titled measures used by other entities or in other jurisdictions. The Company uses these measures because it believes they provide useful information to both management and investors with respect to the operating and financial performance of the Company.

	Three months ended		Years ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income (loss)	\$ 770,086	\$ (300,694)	\$ (46,266)	\$ (4,754,132)
Finance (income) expense	(41,484)	(11,273)	(121,878)	1,014,779
Foreign exchange (gain) loss	5,270	112,974	(250,023)	169,815
Depreciation and amortization	425,472	727,430	1,611,891	2,916,283
Share-based compensation	146,497	176,535	681,739	921,198
Net loss from discontinued operations	-	427,277	123,322	900,279
Adjusted EBITDA	\$ 1,305,841	\$ 1,132,249	\$ 1,998,785	\$ 1,168,222

Equity Grants

The Board of Directors are approving for grant 1,227,500 stock options. These options will be granted subsequent to the end of the Company's trading blackout at market price, in accordance with TSXV Policy 1.1 The options will be for five years and will bring the total options outstanding to 5.6% of outstanding shares. The Company also granted 280,990 restricted share units, of which 197,525 are to directors and officers.

Nanotech Security Corp.

Consolidated Statements of Operations and Comprehensive Loss

Years ended September 30, 2018 and 2017

(In Canadian dollars)

	Three months ended September 30,		Years ended September 30,	
	2018	2017	2018	2017
Revenue	\$ 3,085,140	\$ 2,661,660	\$ 9,199,710	\$ 7,343,791
Cost of sales	667,835	418,915	2,051,890	1,429,371
	2,417,305	2,242,745	7,147,820	5,914,420
Expenses				
Research and development	212,513	296,124	1,407,430	1,475,437
General and administration	597,666	444,859	2,532,156	2,308,846
Sales and marketing	502,264	595,165	2,018,055	2,043,514
Depreciation and amortization	370,990	678,313	1,485,024	2,755,882
	1,683,433	2,014,461	7,442,665	8,583,679
Income (loss) from continuing operations before other expenses	733,872	228,284	(294,845)	(2,669,259)
Other (income) expenses				
Foreign exchange (gain) loss	5,270	112,974	(250,023)	169,815
Finance (income) expense	(41,484)	(11,273)	(121,878)	1,014,779
	(36,214)	101,701	(371,901)	1,184,594
Net income (loss) from continuing operations	770,086	126,583	77,056	(3,853,853)
Net loss from discontinued operations	-	(427,277)	(123,322)	(900,279)
Net income (loss)	770,086	(300,694)	(46,266)	(4,754,132)
Other comprehensive income (loss):				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss) on translation of foreign operation	-	61,890	(98,908)	85,605
Total comprehensive income (loss)	\$ 770,086	\$ (238,804)	\$ (145,174)	\$ (4,668,527)
Basic and diluted earnings (loss) per share:				
Continuing operations	\$ 0.01	\$ 0.00	\$ 0.00	\$ (0.07)
Discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ (0.01)
Net income (loss)	\$ 0.01	\$ 0.00	\$ 0.00	\$ (0.08)
Weighted average number of common shares				
Basic	68,514,245	68,107,758	68,425,673	59,056,353
Diluted	68,514,245	68,497,093	68,425,673	59,056,353

Nanotech Security Corp.

 Consolidated Statements of Financial Position
 As at September 30, 2018 and 2017

(In Canadian dollars)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,014,764	\$ 10,883,919
Short-term investments	7,598,857	-
Accounts receivable	1,962,969	1,374,442
Inventory	173,636	151,708
Prepaid expenses and other assets	125,514	187,874
Assets held for sale	-	216,225
	<u>11,875,740</u>	<u>12,814,168</u>
Property, plant and equipment	16,964,857	15,856,998
Goodwill	1,388,458	1,388,458
	<u>\$ 30,229,055</u>	<u>\$ 30,059,624</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,265,282	\$ 1,431,466
Deferred revenue	-	157,171
Liabilities directly associated with assets held for sale	16,204	200,226
	<u>1,281,486</u>	<u>1,788,863</u>
Non-current liabilities:		
Tenant inducement	43,653	71,223
	<u>1,325,139</u>	<u>1,860,086</u>
Shareholders' equity		
Share capital	61,892,395	61,426,483
Contributed surplus	2,930,964	2,715,137
Deficit	(35,919,443)	(35,873,177)
Accumulated other comprehensive loss	-	(68,905)
	<u>28,903,916</u>	<u>28,199,538</u>
	<u>\$ 30,229,055</u>	<u>\$ 30,059,624</u>

Nanotech Security Corp.

 Consolidated Statements of Cash Flows
 Years ended September 30, 2018 and 2017

(in Canadian Dollars)

	Three months ended September 30,		Years ended September 30,	
	2018	2017	2018	2017
Cash flows provided by (used in):				
Operating activities:				
Net income (loss) from continuing operations	\$ 770,086	\$ 126,583	\$ 77,056	\$ (3,853,853)
Items not involving cash:				
Depreciation and amortization	425,472	729,030	1,611,891	2,917,883
Share-based compensation	146,497	176,535	681,739	921,198
Accretion of convertible debentures	-	-	-	589,858
Other	(6,892)	(6,892)	(27,570)	(27,570)
Non-cash working capital changes	(931,713)	(394,605)	(889,380)	(720,420)
	403,450	(630,651)	1,453,736	(172,904)
Net cash provided by (used in) discontinued operations	(17,924)	(32,986)	76,694	(574,313)
Cash provided by (used in) operating activities	385,526	597,665	1,530,430	(747,217)
Investing activities:				
Purchase of property and equipment	(222,920)	(11,542)	(2,701,820)	(106,944)
Acquisition of short-term investments	(7,598,857)	-	(7,598,857)	-
Cash used in investing activities	(7,821,777)	(11,542)	(10,300,677)	(106,944)
Financing activities:				
Issuance of shares for options exercised	-	-	-	223,000
Proceeds on financing, net of costs	-	-	-	12,486,784
Repayment of note payable	-	(3,000,000)	-	(3,000,000)
Repayment of convertible debentures	-	-	-	(1,370,000)
Cash provided by financing activities	-	(3,000,000)	-	8,339,784
Effect of foreign exchange on cash and cash equivalents	-	61,890	(98,908)	85,605
Increase (decrease) in cash and cash equivalents	(7,436,251)	(2,351,987)	(8,869,155)	7,571,228
Cash and cash equivalents, beginning of year	9,451,015	13,235,906	10,883,919	3,312,691
Cash and cash equivalents, end of year	\$ 2,014,764	\$ 10,883,919	\$ 2,014,764	\$ 10,883,919

Conference Call Details:

DATE:	Wednesday, December 19, 2018	Time: 5:00 PM Eastern
DIAL IN NUMBER:	Toll free (Canada and US): 1-800-239-9838 Conference ID: 2410869	Alternate number: 1-323-794-2551
TAPED REPLAY:	Toll free (Canada and US): 1-844-512-2921 Replay available until January 19, 2019 Replay pin number: 2410869	Alternate number: 1-412-317-6671 Replay pin number: 2410869
WEBCAST:	http://public.viavid.com/index.php?id=132363	

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 in development until profitability is eventually realized. The principal risks related to these forward-looking statements are the loss of a key customer, that the Company's products receive market acceptance, and 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's discussion and analysis and the notes to the audited consolidated financial statements for the year ended September 30, 2018, 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

Nanotech researches, creates and produces nano-optic structures and colour-shifting materials used in authentication and brand enhancement applications across a wide range of markets including banknotes, tax stamps, secure government documents, commercial branding, and the pharmaceutical industry.

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 lithography system, 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.

Nanotech Security Corp.:

Shana Chow
info@nanosecurity.ca
+1.604.678.5775

Investor Relations:

Sean Peasgood
sean@SophicCapital.com
+1.647.699.9845

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