



# News Release

TSXV, Tier 1: "NTS"

OTCQX: "NTSFF"

## ***Nanotech Announces Strong First Quarter Fiscal 2018 Results***

### *Third Consecutive Quarter of Positive Adjusted EBITDA*

**VANCOUVER, British Columbia – February 22, 2018** – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF) ("Nanotech" or the "Company"), a leading innovator in the research, creation and production of advanced security products for the anti-counterfeiting market, today released its financial results for the three months ended December 31, 2017. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

#### **Highlights during the First Quarter**

- **Revenue increased 222% to \$2.2 million compared to the same period last year.** Paid development contracts continued to drive the period over period revenue growth.
- **Gross margins were 75%, down from 83% in the same period last year.** Gross margins continue to reflect strong margins from development contracts and were slightly impacted by lower margin revenue from the Thurso operations.
- **Adjusted EBITDA<sup>(1)</sup> reached \$460,000.** The Company recorded its third consecutive quarter of positive Adjusted EBITDA, a notable improvement from the \$556,000 negative Adjusted EBITDA reported for the same period last year.
- **Achieved positive net income of \$96,000.** Strong revenues and gross margins resulted in positive net income, a significant change from the net loss of \$1.9 million reported for the same period last year.
- **Cash balance of \$10.9 million at quarter-end.** The Company finished the quarter with a strong cash position and no debt or warrants outstanding.

#### **Recent Developments**

- **Paid development contracts are progressing well.** The Company currently derives a significant portion of its revenue from paid authentication development projects with major issuing authorities. During 2017, the Company announced a development contract for up to \$30.0 million over a period of up to five years. These development activities incorporate both nano-optic and optical thin film ("OTF") technologies and are focused on developing authentication features for future banknotes. All projects are progressing well, and the Company continues to seek additional development contract revenue as a growth area for the business.
- **Tax stamps and commercial markets.** Management continues to work with this Indian customer to transition the government from traditional holographic images to licensing Nanotech's nano-optic images.
- **Commercial applications.** The Indian market has presented several other long-term opportunities beyond tax stamps. The Company is working with the same tax stamp partner to pursue the broader foil packaging market. Outside of India, the Company is pursuing opportunities in the luxury brand, cosmetics and pharmaceutical markets.
- **Thurso OTF opportunities.** The Company continues to deliver OTF from its Thurso facility. The Company also sees new opportunities to potentially work on new denominations within our existing customer base. The Thurso operation also participates in researching OTF and production applications for development contracts.
- **Asian OTF opportunities.** The Company continues to work with its European production partner, Hueck Folien, to become qualified to deliver volume OTF to a specific Asian customer. Overall, management remains optimistic that there is strong customer demand for OTF and that over time Hueck Folien will be successful in demonstrating its ability to produce colour-shifting OTF. At this point in time, management cannot specify when or if volume shipments will



commence to this customer.

- **Divestiture of non-core business.** On September 21, 2017, Company Directors decided that selling the Company’s subsidiary, Tactical Technologies Inc. (“Tactical”), was in the Company’s long-term interest. The Company is actively pursuing potential purchasers and has engaged a business broker to pursue interested third parties. The Company has restructured Tactical’s operations and it currently operates with four employees with a limited cash burn. At December 31, 2017, Tactical had \$260,000 in assets held for sale and \$339,000 in liabilities. It is expected that Tactical will either be sold or wound down over the next few months.

Doug Blakeway, Nanotech’s Chairman and CEO, commented, “Our continued revenue growth has led to our third consecutive quarter of positive Adjusted EBITDA. This growth has enabled us to maintain a strong cash position of \$10.9 million which allows us to continue to pursue further growth in markets outside of banknotes. With the recent strengthening of our balance sheet, increased development contract revenue and advancing customer relationships, we are very well positioned to continue our growth.”

**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		
	December 31,		
	2017	2016	Change %
Revenue	\$ 2,233,227	\$ 694,471	222%
Gross margin	1,669,376	578,002	189%
Gross margin %	75%	83%	
Adjusted EBITDA <sup>(1)</sup>	459,645	(555,581)	183%
Net income (loss)	95,820	(1,853,280)	105%
Earnings (loss) per share			
Basic and diluted	0.00	(0.03)	
Weighted average number of common shares			
Basic	68,395,825	53,871,231	
Diluted	68,658,858	53,871,231	

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

Financial Position as at:	December 31, 2017	September 30, 2017	% Change
Cash	\$ 10,898,913	\$ 10,883,919	0%
Total assets	\$ 30,252,128	\$ 30,059,624	1%
Total liabilities	1,893,790	1,860,086	2%
Total equity	28,358,338	28,199,538	1%

**Revenue**

Consolidated revenues for the three months ended December 31, 2017 increased by \$1,538,756 or 222% to \$2,233,227 compared to \$694,471 in the same period last year. Revenue growth was primarily due to increased revenue from paid development contracts and from increased revenues from our Thurso operations.



During the year ended September 30, 2017, the Company disclosed a development contract for up to \$30.0 million over a period of up to five years. These development activities incorporate both nano-optic and OTF technologies and are focused on developing authentication features for future banknotes.

### **Gross Margin**

Gross margin for the three months ended December 31, 2017 increased by \$1,091,374 or 189% to \$1,669,376 compared to \$578,002 in the same period last year. Overall, the gross margin percentage was 75% for the three months ended December 31, 2017, down from 83% in the same period last year. This decrease reflects increased labour and materials costs in the development contracts and lower margins on Thurso operation revenues.

### **Operating Costs**

Research and development expenditures for the three months ended December 31, 2017 decreased by \$28,809 or 8% to \$346,187 compared to \$374,996 in the same period last year. A larger portion of salaries and other expenses were allocated to cost of sales in 2017 as a result of increased development project activities, offset by increased patent work and overall higher salary costs related to additional technical staff who were hired in the second quarter of 2017.

General and administration expenditures for the three months ended December 31, 2017 were \$541,619, consistent with \$542,701 in the same period last year.

Sales and marketing expenditures for the three months ended December 31, 2017 were \$456,750, an increase of \$31,246 or 7% compared to \$425,504 in the same period last year. The increase mainly relates to an increase in travel and marketing expenses.

Depreciation and amortization expenditures for the three months ended December 31, 2017 were \$310,043, compared to \$720,837 in the same period last year, reflecting the Company's declining balance depreciation policy and the intangible assets being completely amortized as at September 30, 2017.

Other income for the three months ended December 31, 2017 was \$81,043, an increase of \$267,768 compared to other expenses of \$186,725 in the same period last year. The increase is primarily due to the repayment of the convertible debentures and long-term debt during 2017, which reduced interest expense by \$232,606 in the current quarter compared to 2016, in combination with an increase in cash on hand, which generated interest income of \$36,150 in the current quarter.

### **Adjusted EBITDA**

Adjusted EBITDA for the three months ended December 31, 2017 was \$459,645, compared to negative \$555,581 during the same period last year. The improvement reflects an increase in revenues and reduced expenses, offset by lower margins.

### **Net Income**

Net income for the three months ended December 31, 2017 was \$95,820 compared to a net loss of \$1,853,280 during the same period last year. The increase in net income reflects an increase in revenues and reduced expenses, offset by lower margins.

### **Capital Resources**

The Company's objectives when managing capital are to safeguard the ability to continue as a going concern, to provide adequate return to shareholders, to meet external capital requirements, and to preserve financial flexibility in order to benefit from potential opportunities that may arise. Our principal cash requirements are for operations, working capital, and capital expenditures.

The Company's officers are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. In managing its capital, the Company considers changes in economic conditions, risks that impact consolidated operations, and future significant capital investment opportunities. For the three months ended December 31, 2017 there were no changes in our approach to capital management.



As at December 31, 2017, cash and cash equivalents amounted to \$10,898,913 compared to \$10,883,919 as at September 30, 2017.

The Company had no lines of credit and no exposure to asset backed commercial paper.

The Company had commitments of \$2,236,024 as of December 31, 2017.

Management has reviewed its projected funding requirements and expects that, through the generation and collection of revenues, the Company will maintain sufficient liquidity to meet its requirements through December 31, 2018.

**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), income taxes, depreciation and amortization, share-based compensation, net loss from discontinued operations, and foreign exchange gain. The Company believes Adjusted EBITDA is a useful measure because 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, and fund 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 our 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	
	December 31,	
	2017	2016
Net income (loss)	\$ 95,820	\$ (1,853,280)
Finance (income) expense	(34,042)	231,119
Foreign exchange gain	(47,001)	(44,394)
Depreciation and amortization	356,763	726,504
Share-based compensation	88,105	203,951
Net loss from discontinued operations	-	180,519
Adjusted EBITDA	\$ 459,645	\$ (555,581)

**ADDITIONAL INFORMATION**

**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 strong margins and established customer base. With the signing of the \$30.0 million development contract, the Company is focusing on further developing business with its established customer base and, as a result, is well positioned to expand its authentication development contract revenue and other nano-optic and OTF opportunities in the years ahead.

The Company has now recorded its third consecutive quarter of positive Adjusted EBITDA. For 2018, the Company is well positioned financially to pursue opportunities in the banknote, tax stamp and commercial markets. In our business, there



is an inherent variability in development contract revenue with government organizations. As a result, management projects second quarter revenue of \$1.9 million. With a strong balance sheet, including \$10,898,913 in cash and no debt, management continues to be on track to deliver strong annual financial performance in line with its September 30, 2017 guidance.

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, the loss of a key customer, risks related to uncertainty of amount and timing of purchase orders, the ability of Hueck Folien to successfully deliver volume production, our ability to expand our development revenue and our ability to maintain sufficient liquidity through December 31, 2018 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, 2017 management’s discussion and analysis.



# Nanotech Security Corp.

Condensed Consolidated Interim Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

Three months ended December 31, 2017 and 2016

(In Canadian dollars)

	2017	2016
Revenue	\$ 2,233,227	\$ 694,471
Cost of sales	563,851	116,469
	1,669,376	578,002
Expenses		
Research and development	346,187	374,996
General and administration	541,619	542,701
Sales and marketing	456,750	425,504
Depreciation and amortization	310,043	720,837
	1,654,599	2,064,038
Income (loss) from continuing operations before other expenses	14,777	(1,486,036)
Other (income) expenses		
Foreign exchange gain	(47,001)	(44,394)
Finance (income) expense	(34,042)	231,119
	(81,043)	186,725
Net income (loss) from continuing operations	95,820	(1,672,761)
Net loss from discontinued operations	-	(180,519)
Net income (loss)	95,820	(1,853,280)
Other comprehensive loss:		
Items that may be subsequently reclassified to earnings:		
Unrealized foreign exchange loss on translation of foreign operation	(25,125)	(24,969)
Total comprehensive income (loss)	\$ 70,695	\$ (1,878,249)
Basic and diluted earnings (loss) per share:		
Continuing operations	\$ 0.00	\$ (0.03)
Discontinued operations	\$ 0.00	\$ 0.00
Net income (loss)	\$ 0.00	\$ (0.03)
Weighted average number of common shares		
Basic	68,395,825	53,871,231
Diluted	68,658,858	53,871,231



# Nanotech Security Corp.

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited)

(In Canadian dollars)

	December 31, 2017	September 30, 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,898,913	\$ 10,883,919
Accounts receivable	1,120,389	1,374,442
Inventory	130,684	151,708
Prepaid expenses and other assets	713,441	187,874
Assets held for sale	259,794	216,225
	<u>13,123,221</u>	<u>12,814,168</u>
Property, plant and equipment	15,740,449	15,856,998
Goodwill	1,388,458	1,388,458
	<u>\$ 30,252,128</u>	<u>\$ 30,059,624</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,333,165	\$ 1,431,466
Deferred revenue	157,171	157,171
Liabilities directly associated with assets held for sale	339,124	200,226
	<u>1,829,460</u>	<u>1,788,863</u>
Non-current liabilities:		
Tenant inducement	64,330	71,223
	<u>1,893,790</u>	<u>1,860,086</u>
Shareholders' equity		
Share capital	61,426,483	61,426,483
Contributed surplus	2,803,242	2,715,137
Deficit	(35,777,357)	(35,873,177)
Accumulated other comprehensive loss	(94,030)	(68,905)
	<u>28,358,338</u>	<u>28,199,538</u>
	<u>\$ 30,252,128</u>	<u>\$ 30,059,624</u>



# Nanotech Security Corp.

Condensed Consolidated Interim Statements of Cash Flows  
(Unaudited)

Three months ended December 31, 2017 and 2016  
(in Canadian Dollars)

	2017	2016
Cash flows provided by (used in):		
Operating activities:		
Net income (loss) from continuing operations	\$ 95,820	\$(1,672,761)
Items not involving cash:		
Depreciation and amortization	356,763	726,504
Share-based compensation	88,105	203,951
Accretion of convertible debentures	-	76,024
Other	(6,893)	(6,893)
Non-cash working capital changes	(420,464)	(101,353)
	113,331	(774,528)
Discontinued operations:		
Net loss from discontinued operations	-	(180,519)
Depreciation	-	3,197
Non-cash working capital changes	95,329	(36,498)
Cash provided by (used in) operating activities	208,660	(988,348)
Investing activities:		
Purchase of property and equipment	(168,541)	(16,233)
Cash used in investing activities	(168,541)	(16,233)
Financing activities:		
Issuance of shares for options exercised	-	23,000
Cash provided by financing activities	-	23,000
Effect of foreign exchange on cash and cash equivalents	(25,125)	(24,969)
Increase (decrease) in cash and cash equivalents	14,994	(1,006,550)
Cash and cash equivalents, beginning of period	10,883,919	3,312,691
Cash and cash equivalents, end of period	\$ 10,898,913	\$ 2,306,141





**Conference Call Details:**

<b>DATE:</b>	Thursday, February 22, 2018	Time: 5:00 PM Eastern Time
<b>DIAL IN NUMBER:</b>	Toll free (Canada and US): 1-800-263-0877 Conference ID: 1220038	Alternate number: 1-323-794-2094
<b>TAPED REPLAY:</b>	Toll free (Canada and US): 1-844-512-2921 Replay available until March 22, 2018 Replay Pin number: 1220038	Alternate number: 1-412-317-6671 Replay Pin number: 1220038
<b>WEBCAST:</b>	<a href="http://public.viavid.com/index.php?id=128414">http://public.viavid.com/index.php?id=128414</a>	

**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 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 notes to the consolidated financial statements for the year ended September 30, 2017, 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](http://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 products that have brand protection and 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, 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](http://www.nanosecurity.ca), 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).

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