



# News Release

TSXV, Tier 1: "NTS"

OTCQX: "NTSFF"

## ***Nanotech Announces First Quarter Fiscal 2016 Results***

***New Development Contracts and Investing in Production Position Nanotech for Growth***

**VANCOUVER, British Columbia – February 29, 2016** – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF), ("Nanotech" or the "Company") today released its financial results for the three months ended December 31, 2015.

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

- **Revenue of \$1.5 million consistent with the same period last year.** Security Features contributed revenues of \$569,000 largely from development contracts and Surveillance delivered \$940,000.
- **Gross margin improved to 50% up from 34% in the same period last year.** The improvement reflects the increased mix of higher margin Security Features revenue.
- **Renewed a \$1.0 million banknote security feature development contract.** The Company successfully renewed the third and final phase of a banknote development contract with a top ten issuing authority to develop a unique Optically Variable Device ("OVD") security feature for incorporation into future banknotes. The final phase is expected to generate revenues of approximately \$1.0 million.
- **Signed new \$3.0 million KolourOptik™ banknote development contract.** The Company signed a new three phase development contract to use the KolourOptik™ nanotechnology to develop a unique OVD security features with another G8 country for incorporation into future banknotes.
- **Strategic meetings with large international banknote issuing authority.** The Company continues to work with a large international banknote issuing authority to deliver a significant volume of colour shifting Optical Thin Film ("OTF"), and partner with our KolourOptik™ technology. Management continues to devote a significant amount of time and resources in advancing these opportunities.
- **Signed a Memorandum of Understanding ("MOU") with Hueck Folien, a European manufacturer to supply OTF to the banknote market.** The MOU contemplates an operational agreement to collaborate in the volume production of a colour shifting OTF security feature. The OTF product is anticipated to initially be used in banknotes as threads and then expand into other markets in the future.



Doug Blakeway, Nanotech’s Chairman and CEO commented, “These two development contracts are material achievements. Issuing authorities are paying us – something not common in the industry – to design unique banknote security features with our OTF and KolourOptik™ technologies.” He further added, “Nanotech’s team has scaled the Hueck Folien production facility to where we believe together we can provide the initial volumes demanded by a top-ten issuing authority. Our relationship with Hueck Folien continues to funnel security feature opportunities to Nanotech.”

**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			
	December 31,		\$	%
	2015	2014	Change	Change
Revenue	\$ 1,509,240	\$ 1,537,495	\$ (28,255)	(2%)
Gross profit	748,420	527,837	220,583	42%
Gross profit %	50%	34%		
Net earnings (loss)	(1,746,335)	(931,271)	(815,064)	(88%)
Net earnings (loss) per share				
Basic and diluted	(0.03)	(0.02)	(0.01)	70%
Weighted average number of common shares				
Basic and diluted	53,387,215	48,332,771		
Net cash used in operating activities	(1,187,576)	(1,119,076)	(68,500)	6%

	December 31, 2015	September 30, 2015	\$	%
			Change	Change
Total assets	\$ 25,704,681	\$ 27,783,859	\$ (2,079,178)	(7%)
Total long term liabilities	3,119,470	3,126,363	(6,893)	(0%)
Total equity	21,225,845	22,924,873	(1,699,028)	(7%)

Revenues for the three months ended December 31, 2015 were \$1.5 million, consistent with the same period last year. This included the Security Features division delivering revenue of \$569,000 compared to \$1.0 million during the same period last year, primarily from banknote development contracts. The OTF production continued to be negatively impacted as a large international customer reviewed its product specification and entered into discussions with the Company for increased colour shifting OTF volumes. The customer requested Nanotech sub-contract volume production through a partner relationship.

On November 17, 2015 the Company announced the signing of a MOU which contemplates an operational agreement with Hueck Folien to collaborate in the production of volume colour shifting OTF. These discussions have continued to consume internal resources in bringing the new collaboration on-line.



The Surveillance division achieved revenues of \$940,000 compared to \$496,000 during the same period last year. This increase reflected the delivery of a number of surveillance vans and product sales during the period.

Gross margin for the three months ended December 31, 2015 increased by \$220,000 to \$748,000 compared to \$528,000 in the same period last year. The overall gross margin percentage reached 50% for the three months ended December 31, 2015, an improvement from the 34% in the same period last year. This increase reflected higher margins on both the Security Features division’s research and development contracts and with Surveillance division sales.

The net loss for the three months ended December 31, 2015 was \$1.7 million compared to \$931,000 during the same period last year. The increase in net loss reflects stronger gross margins offset by an increase in sales and marketing and expenses associated with bringing on significant capacity for OTF with Hueck Folien to capitalize on the growing pipeline of opportunities we see in the banknote market, and a \$600,000 prior period gain on the revaluation of contingent shares.

The Company ended the quarter with approximately \$1.6 million in cash and cash equivalents, down 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, the Company will maintain sufficient liquidity.

**Outlook**

Management continues to believe 2016 will be another record year for Nanotech, with our goal to again double our annual revenues. We anticipate demand for our security features will continue to grow, and we expect to achieve significant progress in the development of our customer channels and continued commercialization of Nanotech’s KolourOptik™ technology. Hueck Folien continues to ramp-up, as does discussions surrounding the securement of a significant OTF order. We remain confident that we will deliver colour shifting OTF in the coming months and expect revenue to build through the second half of the year via an anticipated higher level of business.

Achieving these results is not certain and involves known and unknown risks that may cause actual results to differ materially from this goal. These risk 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 September 30, 2016 to facilitate any business ramp-up. These and other risk factors are further discussed under the “Business Risks and Uncertainties” segment of the MD&A.



# Nanotech Security Corp.

Condensed Consolidated Statements of Operations and Comprehensive Loss  
(Unaudited)

Three months ended December 31, 2015 and 2014

(In Canadian dollars)

	2015	2014
Revenue	\$ 1,509,240	\$ 1,537,495
Cost of sales	760,820	1,009,658
Gross profit	748,420	527,837
Expenses		
Research and development	1,316,656	1,083,510
General and administration	659,387	606,028
Sales and marketing	548,776	365,085
	2,524,819	2,054,623
Loss before other expenses	(1,776,399)	(1,526,786)
Other expenses (income)		
Foreign exchange gain	(66,483)	(26,810)
Finance expense	36,419	31,295
Gain on revaluation of contingent shares	-	(600,000)
	(30,064)	(595,515)
Net loss	(1,746,335)	(931,271)
Other comprehensive income (loss):		
Items that may be subsequently reclassified to earnings:		
Unrealized foreign exchange gain (loss) on translation of foreign operation	(28,114)	(23,388)
Total comprehensive loss for the period	\$ (1,774,449)	\$ (954,659)
Net loss per share:		
Basic and diluted	\$ (0.03)	\$ (0.02)
Weighted average number of common shares:		
Basic and diluted	53,387,215	48,332,771



# Nanotech Security Corp.

Consolidated Statements of Financial Position  
(Unaudited)

(In Canadian dollars)

	December 31, 2015	September 30, 2015
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,636,332	\$ 3,021,928
Accounts receivable	955,116	879,266
Inventory	595,428	770,342
Prepaid expenses and other assets	85,911	76,840
	<u>3,272,787</u>	<u>4,748,376</u>
Property, plant and equipment	18,658,179	18,921,396
Intangible assets	2,385,257	2,725,629
Goodwill	1,388,458	1,388,458
	<u>\$ 25,704,681</u>	<u>\$ 27,783,859</u>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued liabilities	\$ 1,319,970	\$ 1,732,623
Deferred revenue	39,396	-
	<u>1,359,366</u>	<u>1,732,623</u>
<b>Long term liabilities:</b>		
Note payable	3,000,000	3,000,000
Tenant inducement	119,470	126,363
	<u>4,478,836</u>	<u>4,858,986</u>
<b>Shareholders' equity</b>		
Share capital	44,666,497	44,666,497
Share based payment reserve	1,802,201	1,726,780
Deficit	(25,035,575)	(23,289,240)
Accumulated other comprehensive loss	(207,278)	(179,164)
	<u>21,225,845</u>	<u>22,924,873</u>
	<u>\$ 25,704,681</u>	<u>\$ 27,783,859</u>



# Nanotech Security Corp.

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

Three months ended December 31, 2015 and 2014  
(in Canadian Dollars)

	2015	2014
<b>Operating activities:</b>		
Net income (loss)	\$ (1,746,335)	\$ (931,271)
Items not involving cash:		
Depreciation and amortization	773,495	580,087
Share based compensation	75,421	137,596
Amortization of tenant inducement	(6,893)	-
Gain on revaluation of contingent shares	-	(600,000)
Gain on sale of asset	-	-
Non-cash working capital changes	(283,264)	(305,488)
Cash used in operating activities	(1,187,576)	(1,119,076)
<b>Investing activities:</b>		
Purchase of property and equipment	(168,434)	(206,292)
Cash used in investing activities	(168,434)	(206,292)
<b>Financing activities:</b>		
Issuance of shares for warrants exercised	-	74,250
Cash provided by financing activities	-	74,250
Effect of foreign exchange on cash and cash equivalents	(29,586)	(28,109)
Decrease in cash and cash equivalents	(1,385,596)	(1,279,227)
Cash and cash equivalents, beginning of period	3,021,928	3,964,645
Cash and cash equivalents, end of period	\$ 1,636,332	\$ 2,685,418

## **Conference Call Details:**

<b>DATE:</b>	Monday February 29, 2016	Time: 5:00 PM Eastern Time
<b>DIAL IN NUMBER:</b>	Toll free (Canada and US): 1-888-481-2844 Conference ID: 2774154	Alternate number: 1-719-457-2085
<b>TAPED REPLAY:</b>	Toll free (Canada and US): 1-877-870-5176 Replay available until March 29, 2016 Replay Pin number: 2774154	Alternate number: 1-858-384-5517 Replay Pin number: 2774154
<b>WEBCAST:</b>	<a href="http://public.viavid.com/index.php?id=118429">http://public.viavid.com/index.php?id=118429</a>	



**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](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, 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](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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