



News Release

TSXV, Tier 1: "NTS"

OTCQX: "NTSFF"

Nanotech Security Announces First Quarter Fiscal 2017 Results

New Paid Development Contract Positions the Company for Growth

VANCOUVER, British Columbia – March 1, 2017 – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF), ("Nanotech" or the "Company") today released its financial results for the three months ended December 31, 2016. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Highlights during the First Quarter

- **Revenue of \$907,013 down from \$1.5 million in the same period last year.** Optics contributed revenues of \$694,471, largely from paid development contracts and Tactical delivered \$212,542, reflecting slow sales during the quarter.
- **Gross margin was 70% up from 50% in the same period last year.** Gross margins continue to reflect strong margins in the Optics division.
- **Cash balance of \$2.3 million at end of the quarter.** Cash used in operations, excluding working capital, amounted to \$850,507, an improvement from \$904,312 in the same period last year.
- **Paid development contracts are progressing well.** The Company currently derives the vast majority of its Optics segment revenue from paid authentication development projects with major issuing authorities. These paid 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 sees these projects as a significant growth area for the business.

Recent Developments

- **Signed development contract for up to \$30.0 million.** Subsequent to the quarter-end, the Company has been awarded a development contract with an issuing authority to develop unique authentication features based on Nanotech's core technologies for use on future banknotes. The contract is for up to \$30.0 million over a period of up to five years. With the addition of this contract, the total fiscal 2017 paid development commitments amount to over \$6.5 million in revenue. Due to the confidential nature of the agreement, no further details have been disclosed.
- **Asian banknote opportunity.** The Company continues to work with its Asian customer to fine tune the product specifications to ensure our OTF accurately matches, integrates, and qualifies with their current supply needs. Management expects to be able to demonstrate our ability to produce OTF that meets the customer expectations later in 2017. Overall management remains optimistic that there is strong customer demand for our OTF and that our production partner will fulfill these requirements and deliver later in the year.
- **Signed sales agreement with ZSST.** The Company has recently signed an agreement with Zhongchao Special Security Technology Company Limited ("ZSST") to sell ZSST's award-winning ColorDance™ anti-counterfeiting technology outside of China to some of the most prominent issuing authorities in the world. ZSST specializes in the research and creation of preventing counterfeit of security documents, and high value materials. ZSST is a subsidiary of the China Banknote Printing & Minting Corporation. The ColorDance overt security feature produces a movement effect which can be integrated as a windowed security thread or as a surface applied feature to a banknote. The technology can also be combined with Nanotech's OTF technology to create a multifaceted security feature for banknotes and high security documents. Nanotech is currently engaged with several of the world's top issuing authorities to incorporate their optics based technologies into banknotes. The ColorDance security features add another innovative technology



that makes Nanotech's existing portfolio of authentication features even more attractive to issuing authorities. This new collaboration enhances Nanotech's position in both the banknote and brand identification markets.

Doug Blakeway, Nanotech's Chairman and CEO, commented, "The recent paid authentication development contract award is significant as we continue to expand both our revenue base and customer confidence. We have secured customer relationships with several of the world's largest banknote issuing authorities and are strategically situated to develop significant business with each of them in the years ahead. Although the OTF production delays with our Asian customer are stretching out longer than foreseen, we continue to make progress and recognize that in our industry this process takes considerable time. All parties remain confident that upon completion of the fine tuning of the OTF process by our production partner Hueck Folien, Nanotech will be well positioned to deliver OTF to meet our Asian customer's banknote needs."

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 ("IASB").

	Three months ended		\$	%
	December 31, 2016	2015		
Revenue	\$ 907,013	\$ 1,509,240	\$ (602,227)	(40%)
Gross profit	631,276	748,420	(117,144)	(16%)
Gross profit %	70%	50%		
Net loss	(1,853,280)	(1,746,335)	(106,945)	(6%)
Net loss per share				
Basic and diluted	(0.03)	(0.03)		
Weighted average number of common shares				
Basic and diluted	53,871,231	53,387,215		
Net cash used in operating activities	(989,234)	(1,187,576)	198,342	17%

	December 31, 2016	September 30, 2016	\$	%
			Change	Change
Total assets	\$ 22,928,532	\$ 24,511,586	\$ (1,583,054)	(7%)
Total liabilities	8,157,747	8,089,503	68,244	1%
Total equity	14,770,785	16,422,083	(1,651,298)	(10%)

Consolidated revenues for the three months ended December 31, 2016 decreased by \$602,227 or 40% to \$907,013 compared to \$1,509,240 in the same period last year. Optics revenue was up \$125,004 compared to last year primarily due to increased revenue from development contracts, however Tactical's revenue was lower by \$727,231 because of lower surveillance van work.

Customer paid development activities are progressing well and we continue to advance our nano-optic based technologies into the development of new security features for banknotes. During the quarter, development revenue amounted to over \$600,000 and it is anticipated to grow. In addition, the Company had started on a new development project and has capitalized \$117,018 in inventory at December 31, 2016, although the Company had not yet been formally awarded the contract at that time. Subsequent to the quarter end, the Company has finalized the agreement, and will recognize revenue during the second quarter.

The Company continues to work with its Asian customer to finalize the product specifications and integrate our OTF into the customer's production facility. Initial deliveries from our Austrian partner continue to be scrutinized and reviewed by the customer as they work to ensure they are seamlessly integrated into their production facility. Management expects our production partner to demonstrate their ability to produce OTF that meets the customer expectation later in 2017.

Revenues from Tactical for the three months ended December 31, 2016 decreased to \$212,542 from \$939,773 in the same



period last year. This decrease reflects the large delivery of surveillance vans in the first quarter of last year, which did not occur in the current quarter. The Tactical division will continue to have fluctuations in their quarterly revenue as it is highly dependent on the timing of surveillance van and product deliveries.

Gross margin for the three months ended December 31, 2016 decreased by \$117,144 or 16% to \$631,276 compared to \$748,420 in the same period last year. Overall, the gross margin percentage improved to 70% for the three months ended December 31, 2016, an increase from 50% in the same period last year. The gross margins continue to reflect strong margins in the Optics division.

Research and development expenditures for the three months ended December 31, 2016 decreased by \$113,116 or 20% to \$445,081 compared to \$558,197 in the same period last year. During the quarter, \$98,795 was capitalized to work-in-progress as the Company began work on a development contract in advance of being formally awarded the contract. Subsequent to the quarter end, the development contract was awarded and the revenue and associated costs will be recognized in the second quarter.

General and administration expenditures for the three months ended December 31, 2016 were \$656,577, an increase of \$8,888 or 1% compared to \$647,689 in the same period last year which reflects consistent overhead costs over the two periods.

Sales and marketing expenditures for the three months ended December 31, 2016 were \$472,903, a decrease of \$75,873 or 14% compared to \$548,776 in the same period last year. The decrease mainly relates to a reduction in travel related costs in the Optics division along with lower salaries in the Tactical division.

Depreciation and amortization expenditures for the three months ended December 31, 2016 were \$724,034, consistent with the \$770,157 in the same period last year.

Other expenses for the three months ended December 31, 2016 were \$185,961, an increase of \$216,025 compared to income of \$30,064 in the same period last year. The increase mainly relates to the interest on the convertible debentures.

The net loss for the three months ended December 31, 2016 was \$1,853,280 compared to \$1,746,335 during the same period last year. The increase in net loss reflects a decrease in revenues, which was partially offset by higher margins. Expenditures were comparable quarter over quarter apart from finance costs which increased by \$195,550 in the current quarter reflecting the new convertible debentures.

The Company ended the quarter with \$2,306,141 in cash and cash equivalents, down from \$3,312,691 at September 30, 2016. Management has reviewed its projected funding requirements and expects that, through the generation and collection of revenues and/or raising additional financing, 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 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. Upon completion of the fine tuning of the OTF process by our production partner Hueck Folien, Nanotech will be well positioned to deliver OTF to meet our Asian customer's banknote needs. 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 Optic and OTF opportunities in the years ahead.

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 Folien to successfully deliver to our Asian customer, our ability to expand our Optics development revenue and our ability to maintain sufficient liquidity through December 31, 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.

Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

Three months ended December 31, 2016 and 2015

(In Canadian dollars)

	2016	2015
Revenue	\$ 907,013	\$ 1,509,240
Cost of sales	275,737	760,820
Gross profit	631,276	748,420
Expenses		
Research and development	445,081	558,197
General and administration	656,577	647,689
Sales and marketing	472,903	548,776
Depreciation and amortization	724,034	770,157
	2,298,595	2,524,819
Loss before other expenses	(1,667,319)	(1,776,399)
Other expenses (income)		
Foreign exchange gain	(44,394)	(66,483)
Finance expense	231,969	36,419
Gain on disposal of asset	(1,614)	-
	185,961	(30,064)
Net loss	(1,853,280)	(1,746,335)
Other comprehensive loss:		
Items that may be subsequently reclassified to earnings:		
Unrealized foreign exchange loss on translation of foreign operation	(24,969)	(28,114)
Total comprehensive loss for the period	\$ (1,878,249)	\$ (1,774,449)
Loss per share		
Basic and diluted	\$ (0.03)	\$ (0.03)
Weighted average number of common shares		
Basic and diluted	53,871,231	53,387,215



Nanotech Security Corp.

Condensed Consolidated Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	December 31, 2016	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,306,141	\$ 3,312,691
Accounts receivable	678,902	597,414
Inventory	478,984	385,753
Prepaid expenses and other assets	90,840	127,719
	<u>3,554,867</u>	<u>4,423,577</u>
Property, plant and equipment	16,964,278	17,338,312
Intangible assets	1,020,929	1,361,239
Goodwill	1,388,458	1,388,458
	<u>\$ 22,928,532</u>	<u>\$ 24,511,586</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,394,681	\$ 1,395,568
Note payable	3,000,000	3,000,000
	<u>4,394,681</u>	<u>4,395,568</u>
Non-current liabilities:		
Convertible debentures	3,671,166	3,595,142
Tenant inducement	91,900	98,793
	<u>8,157,747</u>	<u>8,089,503</u>
Shareholders' equity		
Share capital	45,241,016	45,210,507
Share based payment reserve	2,238,398	2,041,956
Equity component of convertible debentures	443,175	443,175
Deficit	(32,972,325)	(31,119,045)
Accumulated other comprehensive loss	(179,479)	(154,510)
	<u>14,770,785</u>	<u>16,422,083</u>
	<u>\$ 22,928,532</u>	<u>\$ 24,511,586</u>



Nanotech Security Corp.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

Three months ended December 31, 2016 and 2015
(in Canadian Dollars)

	2016	2015
Cash flows provided by (used in):		
Operating activities:		
Net loss	\$(1,853,280)	\$(1,746,335)
Items not involving cash:		
Depreciation and amortization	731,305	773,495
Share-based compensation	203,951	75,421
Amortization of tenant inducement	(6,893)	(6,893)
Gain on disposal of asset	(1,614)	-
Accretion of convertible debentures	76,024	-
Non-cash working capital changes	(138,727)	(283,264)
Cash used in operating activities	(989,234)	(1,187,576)
Investing activities:		
Purchase of property and equipment, net of disposal	(14,619)	(168,434)
Cash used in investing activities	(14,619)	(168,434)
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	(25,697)	(29,586)
Decrease in cash and cash equivalents	(1,006,550)	(1,385,596)
Cash and cash equivalents, beginning of period	3,312,691	3,021,928
Cash and cash equivalents, end of period	\$ 2,306,141	\$ 1,636,332



Conference Call Details:

DATE:	Wednesday, March 1, 2017	Time: 5:00 PM Eastern Standard Time
DIAL IN NUMBER:	Toll free (Canada and US): 1-888-452-4023 Conference ID: 9100016	Alternate number: 1-719-325-2354
TAPED REPLAY:	Toll free (Canada and US): 1-844-512-2921 Replay available until April 1, 2017 Replay Pin number: 9100016	Alternate number: 1-412-317-6671 Replay Pin number: 9100016
WEBCAST:	http://public.viavid.com/index.php?id=123128	

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 for the year ended September 30, 2016, 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, high-definition, and motion-impression, and can also display distinct colours including skin tones, white, and black, which are not possible using current 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.otcm Markets.com.

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