



News Release

TSXV, Tier 1: "NTS"

OTCQX: "NTSFF"

Nanotech Security Announces Second Quarter Fiscal 2017 Results

Paid Development Revenues Begin to Have a Financial Impact

VANCOUVER, British Columbia – May 29, 2017 – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF), ("Nanotech" or the "Company") today released its financial results for the three and six months ended March 31, 2017. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Highlights during the Second Quarter

- **Revenue up 86% to \$1,763,600 compared to the same period last year.** Optics contributed revenues of \$1,418,644, largely from paid development contracts and Tactical delivered \$344,956, reflecting slightly improved equipment sales.
- **Gross margin was 60% up from 52% in the same period last year.** Gross margins continue to reflect strong margins in the Optics division.
- **Cash balance of \$1,391,514 at end of the quarter.** Cash used in operations, excluding working capital, amounted to \$579,030, an improvement from \$1,436,779 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.** 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 provides government budgetary approval for up to \$30.0 million over a period of not more than five years. Under the terms of the contract, the Company can apply to the issuing authority to draw upon the budget on a periodic basis. The contract is anticipated to have gross margins consistent with past development contracts, and it is anticipated that this contract will be a significant contributor to the toward Company's ultimate goal of becoming profitable.
- **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.
- **Completed a \$13.3 million financing.** Subsequent to the quarter end, on May 18, 2017 the Company completed a bought deal private placement with a syndicate of underwriters, whereby a total of 11,586,870 common shares of the Company have been issued and sold, at a price of \$1.15, for total gross proceeds of \$13,324,900.

Doug Blakeway, Nanotech's Chairman and CEO, commented, "Our paid development revenue is very strategic as we continue to expand both our revenue base but also position us to provide security features on future banknotes. We



continue to be optimistic that our production partner Hueck Folien will be able to begin delivering OTF to our Asian customer later this year.” He further stated, “The completion of this recent financing will enable us to begin to increase capacity and make some strategic investments to enable future 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 ("IASB").

	Three months ended March 31,				Six months ended March 31,			
	2017	2016	\$ Change	% Change	2017	2016	\$ Change	% Change
Revenue	\$ 1,763,600	\$ 948,220	\$ 815,380	86%	\$ 2,670,613	\$ 2,457,460	\$ 213,153	9%
Gross profit	1,050,812	493,002	557,810	113%	1,682,088	1,241,422	440,666	35%
Gross profit %	60%	52%			63%	51%		
Net loss	(1,694,890)	(2,450,010)	755,120	(31%)	(3,548,170)	(4,196,345)	648,175	(15%)
Net loss per share								
Basic and diluted	(0.03)	(0.05)			(0.07)	(0.08)		
Weighted average number of common shares								
Basic and diluted	54,122,396	53,399,510			53,995,433	53,411,940		
Net cash used in operating activities	(1,051,843)	(697,840)	(354,003)	51%	(2,041,077)	(1,885,416)	(155,661)	8%

	March 31, 2017	September 30, 2016	\$ Change	% Change
Total assets	\$ 22,173,876	\$ 24,511,586	\$ (2,337,710)	(10%)
Total liabilities	8,576,818	8,089,503	487,315	6%
Total equity	13,597,058	16,422,083	(2,825,025)	(17%)

Consolidated revenues for the three months ended March 31, 2017 increased by \$815,380 or 86% to \$1,763,600 compared to \$948,220 in the same period last year. Optics revenue increased by \$773,695 or 120% to \$1,418,644 compared to \$644,949 last year primarily due to increased revenue from paid development contracts. Tactical’s revenue increased by \$41,685 or 14% to \$344,956 compared to \$303,271 in the previous year due to slightly higher equipment sales.

Customer paid development revenues continue to grow, and the projects are progressing well, as we continue to advance our optic based technologies into the development of new security features for future banknotes. The Company also continues to make progress with a specific Asian customer to finalize the product specifications and integrate our OTF into the customer’s production facility. Management continues to expect our production partner to demonstrate their ability to produce OTF that meets the customer expectation later in 2017. In addition, management is beginning to see new OTF opportunities and is working with several new partners to expand our customer base to provide further growth.

Consolidated revenues for the six months ended March 31, 2017 increased by \$213,153 or 9% to \$2,670,613 compared to \$2,457,460 in the same period last year. Optics revenue increased by \$898,699 or 74% to \$2,113,115 compared to \$1,214,416 last year primarily due to increased revenue from paid development contracts. Tactical’s revenue was lower by \$685,546 which is a result of a large delivery of surveillance vans in the first quarter of the previous year which did not occur in the current year. 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 March 31, 2017 increased by \$557,810 or 113% to \$1,050,812 compared to \$493,002 in the same period last year. Overall, the gross margin percentage improved to 60% for the three months ended March 31, 2017, an increase from 52% in the same period last year. The increased gross margins reflect the new high margin development revenue and the continued overall strong margins in the Optics division.

Gross margin for the six months ended March 31, 2017 increased by \$440,666 or 35% to \$1,682,088 compared to



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 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. With the recent signing of the \$30 million paid 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 Optic and OTF opportunities in the years ahead.

In 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 Folien to successfully deliver to our Asian customer, our ability to expand our Optics development revenue and our ability to maintain sufficient liquidity through March 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, 2016 MD&A.



Nanotech Security Corp.

Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

Three and six months ended March 31, 2017 and 2016
(In Canadian dollars)

	Three months ended		Six months ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Revenue	\$ 1,763,600	\$ 948,220	\$ 2,670,613	\$ 2,457,460
Cost of sales	712,788	455,218	988,525	1,216,038
Gross profit	1,050,812	493,002	1,682,088	1,241,422
Expenses				
Research and development	460,580	667,189	905,661	1,225,386
General and administration	759,919	678,393	1,416,496	1,326,082
Sales and marketing	577,906	653,105	1,050,809	1,201,881
Depreciation and amortization	696,359	771,081	1,420,393	1,541,238
	2,494,764	2,769,768	4,793,359	5,294,587
Loss before other expenses	(1,443,952)	(2,276,766)	(3,111,271)	(4,053,165)
Other expenses (income)				
Foreign exchange (gain) loss	17,213	142,699	(27,181)	76,216
Finance expense	233,725	30,545	465,694	66,964
Gain on disposal of asset	-	-	(1,614)	-
	250,938	173,244	436,899	143,180
Net loss	(1,694,890)	(2,450,010)	(3,548,170)	(4,196,345)
Other comprehensive loss:				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss)				
on translation of foreign operation	10,867	61,361	(14,102)	33,247
Total comprehensive loss for the period	\$ (1,684,023)	\$ (2,388,649)	\$ (3,562,272)	\$ (4,163,098)
Loss per share				
Basic and diluted	\$ (0.03)	\$ (0.05)	\$ (0.07)	\$ (0.08)
Weighted average number of common shares				
Basic and diluted	54,122,396	53,399,510	53,995,433	53,411,940



Nanotech Security Corp.

Condensed Consolidated Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	March 31, 2017	September 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,391,514	\$ 3,312,691
Accounts receivable	1,565,262	597,414
Inventory	395,032	385,753
Prepaid expenses and other assets	107,041	127,719
	<u>3,458,849</u>	<u>4,423,577</u>
Property, plant and equipment	16,645,950	17,338,312
Intangible assets	680,619	1,361,239
Goodwill	1,388,458	1,388,458
	<u>\$ 22,173,876</u>	<u>\$ 24,511,586</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,742,081	\$ 1,395,568
Note payable	3,000,000	3,000,000
	<u>4,742,081</u>	<u>4,395,568</u>
Non-current liabilities:		
Convertible debentures	3,749,729	3,595,142
Tenant inducement	85,008	98,793
	<u>8,576,818</u>	<u>8,089,503</u>
Shareholders' equity		
Share capital	45,556,794	45,210,507
Share-based payment reserve	2,432,916	2,041,956
Equity component of convertible debentures	443,175	443,175
Deficit	(34,667,215)	(31,119,045)
Accumulated other comprehensive loss	(168,612)	(154,510)
	<u>13,597,058</u>	<u>16,422,083</u>
	<u>\$ 22,173,876</u>	<u>\$ 24,511,586</u>



Nanotech Security Corp.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

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

	Three months ended		Six months ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Cash flows provided by (used in):				
Operating activities:				
Net loss	\$(1,694,890)	\$(2,450,010)	\$(3,548,170)	\$(4,196,345)
Items not involving cash:				
Depreciation and amortization	733,893	774,574	1,463,594	1,548,069
Share-based compensation	310,296	245,549	514,247	320,970
Amortization of tenant inducement	(6,892)	(6,892)	(13,785)	(13,785)
Gain on disposal of asset	-	-	(1,614)	-
Accretion of convertible debentures	78,563	-	154,587	-
Non-cash working capital changes	(472,813)	738,939	(609,936)	455,675
Cash used in operating activities	(1,051,843)	(697,840)	(2,041,077)	(1,885,416)
Investing activities:				
Purchase of property and equipment, net of disposal	(73,946)	(40,435)	(88,565)	(208,869)
Cash used in investing activities	(73,946)	(40,435)	(88,565)	(208,869)
Financing activities:				
Issuance of shares for options exercised	200,000	180,000	223,000	180,000
Cash provided by financing activities	200,000	180,000	223,000	180,000
Effect of foreign exchange on cash and cash equivalents	11,162	63,683	(14,535)	34,097
Decrease in cash and cash equivalents	(914,627)	(494,592)	(1,921,177)	(1,880,188)
Cash and cash equivalents, beginning of period	2,306,141	1,636,332	3,312,691	3,021,928
Cash and cash equivalents, end of period	\$ 1,391,514	\$ 1,141,740	\$ 1,391,514	\$ 1,141,740



Conference Call Details:

DATE:	Monday, May 29, 2017	Time: 5:00 PM Eastern Daylight Savings Time
DIAL IN NUMBER:	Toll free (Canada and US): 1-800-967-7188 Conference ID: 3639275	Alternate number: 1-719-325-2138
TAPED REPLAY:	Toll free (Canada and US): 1-844-512-2921 Replay available until June 29, 2017 Replay Pin number: 3639275	Alternate number: 1-412-317-6671 Replay Pin number: 3639275
WEBCAST:	<u>http://public.viavid.com/index.php?id=124693</u>	

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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