



News Release

TSXV, Tier 1: "NTS"

OTCQX: "NTSFF"

Nanotech Security Announces Second Quarter Fiscal 2016 Results

Production and Delivery Commenced for Major Banknote

VANCOUVER, British Columbia – May 31, 2016 – 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, 2016. Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Financial Highlights during the Second Quarter

- **Revenue of \$948,000 driven by Security Features.** Security Features contributed revenues of \$645,000 largely from development contracts and Surveillance delivered \$303,000, which was negatively impacted as four surveillance vans were not shipped until after quarter end.
- **Gross margin improved to 52% up from 47% in the same period last year.** The improvement reflects the increased mix of higher margin Security Features revenue.
- **Cash balance of \$1.1 million at end of Q2.** Subsequent to the quarter, Nanotech completed a \$3.0 million dollar secured credit facility to fund operations and working capital as production begins to ramp through the remainder of 2016.

Doug Blakeway, Nanotech's Chairman and CEO, commented, "The second quarter was affected by the delay of four undercover surveillance vans. Our customer has subsequently taken delivery of these units, and we will see these revenues reflected in our third quarter results." Mr. Blakeway added, "The second quarter also saw a lot of Nanotech's resources allocated to bringing the Hueck Folien production facility online. We expect production to ramp up quickly and are confident that we will be able to deliver volume production for our Asian customer through 2017 and beyond."

Recent Developments

To supply security feature for major new banknote. Nanotech has completed the rigorous supplier acceptance process and has commenced production and delivery of Nanotech's proprietary colour-shifting optical thin film ("OTF") that will be used as windowed security thread in banknotes for a large Asian country. The OTF will be produced in co-operation with Hueck Folien, the Company's licensed production partner. Production of the initial order has already commenced, and with successful delivery and acceptance, follow-on orders are anticipated. Production capacity is expected to ramp up through the summer, and we will be well positioned to supply this customer through 2017 and beyond. Due to the confidential nature of the supply arrangement, commercial terms were not



released but the opportunity is expected to have a significant effect on Nanotech revenues. There are no long-term contractual purchase commitments at this time however it is expected that follow on orders will occur with the successful ramp-up of production and delivery.

Unsecured \$2.5 million convertible debenture. Subsequent to the quarter end, the Company announced its intention to privately place approximately \$2.5 million of unsecured senior debentures convertible into common shares at a price of \$1.25 (“the Debentures”). The Debentures bear interest at 12% and come due May 31, 2018. The Debentures are subject to automatic conversion in the event that the common shares of the Company trade on the TSXV at or above \$2.00 for ten consecutive days any time after the first four months from issuance. Insiders are expected to subscribe for \$350,000 of the offering. Completion is expected in the third quarter.

“I am extremely pleased that we have now completed the acceptance process with this important Asian customer and met its demanding specification requirements,” said Mr. Blakeway. “We believe we are well positioned to be a major supplier going forward.”

Strategic Highlights during the Second Quarter

- **Paid optical variable device development contract progresses.** The contract was announced in February 2015 and calls for the incorporation of an optical variable device into future banknotes and is coming to a successful completion. Nanotech has already begun working with the customer to expand the scope in a future contract moving the Company closer to final selection for a major banknote.
- **Paid KolourOptik® development contract progresses.** The three phased contract announced this past February 2016 calls for KolourOptik® technology on a banknote. To date, the development is proceeding smoothly and on course with Nanotech’s internal schedule.
- **Provided technology to authenticate tickets at UEFA EURO 2016® football championship.** Nanotech’s KolourOptik® technology was chosen for admission tickets, due to its intense high definition (iHD) full colour imaging capabilities and anti-counterfeiting security features - replacing older hologram technology used at past events.
- **Award winning “regional banknote of the year” includes Nanotech’s OTF.** The National Bank of Kazakhstan’s 20,000 Tenge banknote, which includes Nanotech colour-shifting OTF security feature, was awarded regional banknote of the year.



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				Six months ended			
	March 31,		\$	%	March 31,		\$	%
	2016	2015	Change	Change	2016	2015	Change	Change
Revenue	\$ 948,220	\$ 1,527,857	\$ (579,637)	(38%)	\$ 2,457,460	\$ 3,065,352	\$ (607,892)	(20%)
Gross profit	493,002	718,433	(225,431)	(31%)	1,241,422	1,246,270	(4,848)	0%
Gross profit %	52%	47%			51%	41%		
Net loss	(2,450,010)	(894,522)	(1,555,488)	174%	(4,196,345)	(1,825,793)	(2,370,552)	130%
Net loss per share								
Basic and diluted	(0.05)	(0.02)	(0.03)	150%	(0.08)	(0.04)	(0.04)	109%
Weighted average number of common shares								
Basic and diluted	53,399,510	48,751,267			53,411,940	48,539,720		
Net cash used in operating activities	(697,840)	(1,149,447)	451,607	(39%)	(1,885,416)	(2,268,523)	383,107	(17%)

	March 31, 2016	September 30, 2015	\$ Change	% Change
Total assets	\$ 23,917,861	\$ 27,783,859	\$ (3,865,998)	(14%)
Total long term liabilities	3,112,578	3,126,363	(13,785)	(0%)
Total equity	19,262,745	22,924,873	(3,662,128)	(16%)

Revenues for the three months ended March 31, 2016 decreased by \$580,000 to \$948,000 compared to \$1,528,000 in the same period last year. This included the Security Features division delivering revenue of \$645,000 compared to \$868,000 during the same period last year, primarily from development contracts. The development contracts continue to progress well and are advancing both our KolourOptik® and colour-shifting OTF technologies to be integrated into future banknotes.

OTF production continued to be negatively impacted as a large Asian issuing authority requested Nanotech sub-contract volume production through a partner relationship. On November 17, 2015 the Company announced the signing of a Memorandum of Understanding which contemplates an operational agreement with Hueck Folien to collaborate in the production of volume colour-shifting OTF. This integration has continued to consume internal resources in bringing the new manufacturing facility online. In May, subsequent to the quarter end, the Company completed the supplier acceptance process with the larger Asian issuing authority and commenced production and delivery of colour-shifting OTF through its licensed production partner Hueck Folien. Production is expected to ramp up volume through the summer and be positioned to supply this customer with significant colour-shifting OTF on a long term basis.

The Surveillance division achieved revenues of \$303,000 for the three months end March 31, 2016 compared to \$660,000 during the same period last year. This decrease reflected the delay in the



shipment of four surveillance vans valued at approximately \$220,000 that were unable to be delivered prior to the quarter end, but were shipped in April 2016.

Revenues for the six months ended March 31, 2016 decreased by \$608,000 to \$2,457,000 compared to \$3,065,000 in the same period last year. This included the Security Features division delivering revenue of \$1,214,000 compared to \$1,910,000 during the same period last year, primarily from development contracts. The OTF production continued to be negatively impacted as the team focused on bringing the new production facility online.

The Surveillance division achieved revenues of \$1,243,000 for the six months ended March 31, 2016 compared to \$1,155,000 during the same period last year. This modest increase reflected growth in the number of surveillance vans delivered during the period.

Gross margin for the three months ended March 31, 2016 decreased by \$225,000 to \$493,000 compared to \$718,000 in the same period last year. Overall, the gross margin percentage reached 52% for the three months ended March 31, 2016, an improvement from the 47% in the same period last year. This increase is reflected in higher margins on the Security Features division's development contracts and Surveillance division sales.

Gross margin for the six months ended March 31, 2016 was \$1,241,000, consistent with \$1,246,000 in the same period last year. Overall, the gross margin percentage reached 51% for the six months ended March 31, 2016, an improvement from the 41% in the same period last year. This increase is again reflected in higher margins on the Security Features division's development contracts and Surveillance division sales.

Research and development expenditures for the three months ended March 31, 2016 increased by \$234,000 to \$1,427,000 compared to \$1,193,000 in the same period last year. This is primarily a result of an increase in depreciation and amortization of \$253,000 reflecting a 2015 revision of the Company's depreciation policy. Research and development activity for the three months ended March 31, 2016 continued to focus on bringing the new Hueck Folien production facility online and new security features targeted for the banknote market.

Research and development expenditures for the six months ended March 31, 2016 increased by \$467,000 to \$2,743,000 compared to \$2,276,000 in the same period last year. This is primarily a result of an increase in depreciation and amortization of \$483,000 reflecting a 2015 revision of the Company's depreciation policy. Research and development activity for the six months ended March 31, 2016 also continued to focus on bringing the new Hueck Folien production facility online and new security features targeted for the banknote market.

General and administration expenditures for the three months ended March 31, 2016 were \$690,000, an increase of \$158,000 compared to \$532,000 in the same period last year which reflected higher office rent, overheads and an increase in stock based compensation.

General and administration expenditures for the six months ended March 31, 2016 were \$1,349,000, an increase of \$211,000 compared to \$1,138,000 in the same period last year which again reflected higher office rent, overheads and an increase in stock based compensation.

Sales and marketing expenditures for the three months ended March 31, 2016 were \$653,000, an increase of \$114,000 compared to \$539,000 in the same period last year due to increased sales and marketing activity related to the Security Features division, which includes increased salaries and



international travel.

Sales and marketing expenditures for the six months ended March 31, 2016 were \$1,202,000, an increase of \$298,000 compared to \$904,000 in the same period last year was again due to increased sales and marketing activity related to the Security Features division, which includes increased salaries and international travel.

The net loss for the three months ended March 31, 2016 was \$2,450,000 compared to \$895,000 during the same period last year. The increase in net loss is reflected in lower sales, an increase in sales and marketing activities, and an increase in non-cash amortization and foreign exchange. The prior year figures also include a \$560,000 gain on the revaluation of contingent shares.

The net loss for the six months ended March 31, 2016 was \$4,196,000 compared to \$1,826,000 during the same period last year. The increase in net loss is reflected in an increase in sales and marketing activities, and an increase in non-cash amortization and foreign exchange. The prior year figures also include a \$1,160,000 gain on the revaluation of contingent shares.

The Company ended the quarter with approximately \$1,142,000 in cash and cash equivalents, down from \$3,022,000 at September 30, 2015. Subsequent to the quarter end, the Company announced its intention to privately place approximately \$2.5 million of unsecured senior debentures convertible into common shares at a price of \$1.25 (“the Debentures”). The Debentures bear interest at 12% and come due May 31, 2018. 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

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. Production volumes are expected to ramp up through the summer to continue to supply this customer with significant colour-shifting OTF through 2017 and beyond.

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 March 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, 2015 MD&A.



Nanotech Security Corp.

Condensed Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

Three and six months ended March 31, 2016 and 2015

(In Canadian dollars)

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Revenue	\$ 948,220	\$ 1,527,857	\$ 2,457,460	\$ 3,065,352
Cost of sales	455,218	809,424	1,216,038	1,819,082
	493,002	718,433	1,241,422	1,246,270
Expenses				
Research and development	1,426,563	1,192,623	2,743,219	2,276,133
General and administration	690,100	531,989	1,349,487	1,138,017
Sales and marketing	653,105	538,615	1,201,881	903,700
	2,769,768	2,263,227	5,294,587	4,317,850
Loss before other expenses	(2,276,766)	(1,544,794)	(4,053,165)	(3,071,580)
Other expenses (income)				
Foreign exchange (gain) loss	142,699	(125,061)	76,216	(151,871)
Finance expense	30,545	34,789	66,964	66,084
Gain on revaluation of contingent shares	-	(560,000)	-	(1,160,000)
	173,244	(650,272)	143,180	(1,245,787)
Net loss	(2,450,010)	(894,522)	(4,196,345)	(1,825,793)
Other comprehensive income (loss):				
Items that may be subsequently reclassified to earnings:				
Unrealized foreign exchange gain (loss)				
on translation of foreign operation	61,361	(60,375)	33,247	(83,763)
Total comprehensive loss for the period	\$ (2,388,649)	\$ (954,897)	\$ (4,163,098)	\$ (1,909,556)
Loss per share				
Basic and diluted	\$ (0.05)	\$ (0.02)	\$ (0.08)	\$ (0.04)
Weighted average number of common shares:				
Basic and diluted	53,399,510	48,751,267	53,411,940	48,539,720



Nanotech Security Corp.

Condensed Consolidated Statements of Financial Position
(Unaudited)

(In Canadian dollars)

	March 31, 2016	September 30, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,141,740	\$ 3,021,928
Accounts receivable	405,025	879,266
Inventory	587,168	770,342
Prepaid expenses and other assets	88,495	76,840
	<u>2,222,428</u>	<u>4,748,376</u>
Property, plant and equipment	18,262,385	18,921,396
Intangible assets	2,044,590	2,725,629
Goodwill	1,388,458	1,388,458
	<u>\$ 23,917,861</u>	<u>\$ 27,783,859</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,542,538	\$ 1,732,623
	<u>1,542,538</u>	<u>1,732,623</u>
Long term liabilities:		
Note payable	3,000,000	3,000,000
Tenant inducement	112,578	126,363
	<u>4,655,116</u>	<u>4,858,986</u>
Shareholders' equity		
Share capital	44,930,433	44,666,497
Share based payment reserve	1,963,814	1,726,780
Deficit	(27,485,585)	(23,289,240)
Accumulated other comprehensive loss	(145,917)	(179,164)
	<u>19,262,745</u>	<u>22,924,873</u>
	<u>\$ 23,917,861</u>	<u>\$ 27,783,859</u>



Nanotech Security Corp.

Condensed Consolidated Statements of Cash Flows
(Unaudited)

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

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Operating activities:				
Net loss	\$ (2,450,010)	\$ (894,522)	\$ (4,196,345)	\$ (1,825,793)
Items not involving cash:				
Depreciation and amortization	774,574	581,471	1,548,069	1,161,558
Share based compensation	245,549	255,072	320,970	392,668
Amortization of tenant inducement	(6,892)	-	(13,785)	-
Gain on revaluation of contingent shares	-	(560,000)	-	(1,160,000)
Non-cash working capital changes	738,939	(531,468)	455,675	(836,956)
Cash used in operating activities	(697,840)	(1,149,447)	(1,885,416)	(2,268,523)
Purchase of property and equipment	(40,435)	(52,392)	(208,869)	(258,684)
Cash used in investing activities	(40,435)	(52,392)	(208,869)	(258,684)
Financing activities:				
Issuance of shares for options exercised	180,000	-	180,000	-
Issuance of shares for warrants exercised	-	661,725	-	735,975
Cash provided by financing activities	180,000	661,725	180,000	735,975
Effect of foreign exchange on cash and cash equivalents	63,683	(61,281)	34,097	(89,390)
Decrease in cash and cash equivalents	(494,592)	(601,395)	(1,880,188)	(1,880,622)
Cash and cash equivalents, beginning of period	1,636,332	2,685,418	3,021,928	3,964,645
Cash and cash equivalents, end of period	\$ 1,141,740	\$ 2,084,023	\$ 1,141,740	\$ 2,084,023



Updated Conference Call Details:

DATE:	Tuesday, May 31, 2016	Time: 5:00 PM Eastern Time
DIAL IN NUMBER:	Toll free (Canada and US): 1-888-427-9411 Conference ID: 4158374	Alternate number: 1-719-325-2420
TAPED REPLAY:	Toll free (Canada and US): 1-877-870-5176 Replay available until June 30, 2016 Replay Pin number: 4158374	Alternate number: 1-858-384-5517 Replay Pin number: 4158374
WEBCAST:	http://public.viavid.com/index.php?id=119784	

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. 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, the Canadian disclosure filings website www.sedar.com or the OTCMarkets disclosure filings website www.otcmarkets.com.

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