

Nanotech Announces Fiscal 2019 Fourth Quarter and Year-End Results

VANCOUVER, British Columbia – December 12, 2019 – Nanotech Security Corp. (TSXV: NTS) (OTCQX: NTSFF) ("**Nanotech**" or the "**Company**"), a leader in the development of secure and memorable nano-optic security features used in the government and banknote and brand protection markets, today released its financial results for the fourth quarter and year ended September 30, 2019. Management will host a conference call today at 5:00 pm Eastern (details below). Unless otherwise stated, all dollar amounts are expressed in Canadian dollars.

Financial Highlights

- Revenue was \$1.5 million and \$6.4 million for the quarter and the year ended September 30, 2019, representing a decrease of 52% and 22% compared to the same periods last year.
- Gross margin for the quarter was 77% versus 72% last quarter and 78% in the fourth quarter of 2018. Annual gross margin for 2019 was 76% versus 82% in 2018.
- Adjusted EBITDA for the fourth quarter was negative \$298,542 and negative \$118,519 for the 2019 fiscal year.
- Cash and short-term investments were \$10.3 million at year end.

"In 2019 we achieved several significant strategic goals as we transitioned to a product-based strategy," said President and CEO Troy Bullock. "We began building our sales team, developed new products that are gaining traction and expanded sales of our existing products, while continuing to advance the new banknote security feature for our contract services central bank customer. Looking ahead to 2020, we are poised for revenue growth while we continue to advance our growth and commercialization strategies."

Report on 2019 Strategic Initiatives

In 2019, the Company shifted its focus to near-term revenue growth by commercializing its technology into products specifically designed for the banknote and secure document market and for the brand protection market. The Company expanded its sales and marketing team with the addition of experienced sales leaders to pursue near-term revenue opportunities in both of its key markets.

Banknote security feature market. The Company has two areas of focus in the banknote market:

1. **Advancement of contract services for a G10 central bank.** The confidential customer, a central bank, confirmed in July that the security feature developed by Nanotech will advance to the next stage, which involves demonstrating that the security feature can be manufactured. While the Company does not currently have visibility on if or when Nanotech's feature might be integrated into the customer's banknotes, the Company has made major advancements in its development of a unique and novel security feature in 2019.
2. **Expansion of Nanotech's security feature product line.** The Company successfully pursued new sales opportunities for optical thin film ("OTF") in the banknote and secure documents market. As announced on August 1, 2019 and September 10, 2019, the Company expanded its business with two long-term OTF customers in 2019. In addition, Nanotech developed KolourDepth™, a new banknote security feature using the Company's nano-optic technology that was launched on October 1, 2019.

Brand protection market. The Company launched its first brand protection products, LiveLogo™ and LivePortrait™ in April and completed its first sale in the brand protection market this year. The sales team participated in targeted industry tradeshows and events to promote Nanotech's brand protection product line. Nanotech's products have garnered strong interest from the industry, with several opportunities added to the sales pipeline and the announcement of a multi-year brand protection contract subsequent to year end.

2020 Outlook

In 2020, the Company will pursue revenue growth by focusing on product sales opportunities with short sales cycles in both key markets. Management has set the following targets for 2020:

- **Develop strategic sales relationships.** The Company will expand its sales reach by partnering with more established OEMs in both the banknote and brand protection market to promote Nanotech's products to their existing customer bases.
- **Develop strategic manufacturing and product partnerships.** Management plans to partner with select manufacturers who have a proven track record of excellence. These partnerships will reduce the manufacturing risk associated with scaling up product sales and will also allow the Company to expand its brand protection product line.
- **Revenue diversification.** Management believes there are further growth opportunities for OTF and its KolourOptik®-based products are generating strong interest from banknote and brand protection customers. Management has set a strategic goal to increase product revenue in fiscal 2020. Contract services awarded for fiscal 2020 at \$5.0 million are comparable to fiscal 2019, with some opportunities for additional awards and revenue growth in fiscal 2020.

The Company will continue to expand its product line and make further investments in its sales and marketing team and initiatives in order to expand Nanotech's market reach. In the near-term, management expects that Adjusted EBITDA losses will persist as cost increases will outpace revenue growth in fiscal 2020. However, these additional expenditures are expected to support revenue growth beyond 2020.

With a strong balance sheet, including \$10.3 million in cash and short-term investments and no debt, the Company is well positioned to continue to develop and pursue its product-based sales and marketing strategies in 2020.

Conference Call Details

Date & Time:	Thursday, December 12, 2019 - 5:00 P.M. Eastern	
Dial-in number:	Toll Free:	1-866-548-4713
	Toll/International:	1-323-794-2093
Conference ID:	2324198	
Taped replay:	Toll free (Canada and US):	1-844-512-2921
	Alternate number:	1-412-317-6671
	Replay pin number:	2324198
	Replay start:	Thursday December 12, 2019, 8:00 PM Eastern
	Replay expiry:	Sunday January 12, 2020, 11:59 PM Eastern
Webcast:	http://public.viavid.com/index.php?id=137219	

Equity Grants

The Board of Directors have approved for grant 1,479,000 stock options. These options will be granted subsequent to the end of the Company's trading blackout at market price, in accordance with TSXV Policy 1.1. The options will be for five years and will bring the total options outstanding to 7.2% of outstanding shares. The Company also granted 291,479 restricted share units, of which 147,984 are to officers.

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 September 30			Years ended September 30		
	2019	2018	% Change	2019	2018	% Change
Revenue ⁽¹⁾	\$ 1,449,687	\$ 3,000,839	(52%)	\$ 6,402,702	\$ 8,247,414	(22%)
Gross margin	1,112,053	2,333,004	(52%)	4,890,837	6,737,313	(27%)
Gross margin %	77%	78%		76%	82%	
Adjusted EBITDA ⁽²⁾	(298,542)	1,305,841	(123%)	(118,519)	1,998,785	(106%)
Net income (loss)	(704,848)	770,086	(192%)	(2,835,254)	(46,266)	6,028%
Earnings (loss) per share						
Basic and diluted	(0.01)	0.01		(0.04)	0.00	
Weighted average number of common shares						
Basic and Diluted	69,035,007	68,514,245		68,916,001	68,425,673	

⁽¹⁾ Revenue has been adjusted to reflect the reclassification of tenant and steam income from revenue to other income under the full retrospective application of IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"), which was adopted October 1, 2018. Quarterly revenue adjusted for these reclassifications can be found in the "Quarterly Results" section of management's discussion and analysis for the year ended September 30, 2019. For further information, see note 4(b) of the consolidated financial statements for the year ended September 30, 2019.

⁽²⁾ Adjusted EBITDA is a non-IFRS measure as described in the "Non-IFRS Financial Measures" section of this News Release.

Financial Position as at:	September 30, 2019	September 30, 2018	% Change
Cash, cash equivalents and short-term investments	\$ 10,289,264	\$ 9,613,621	7%
Total assets	\$ 28,523,244	\$ 30,229,055	(6%)
Total liabilities	1,791,610	1,325,139	35%
Total equity	26,731,634	28,903,916	(8%)

Financial Statements and Management's Discussion and Analysis

This news release should be read in conjunction with the Company's consolidated financial statements and related notes, and management's discussion and analysis for the year ended September 30, 2019, copies of which can be found at www.sedar.com.

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), foreign exchange gain (loss), income taxes, depreciation and amortization, share-based compensation, restructuring costs, and net income (loss) from discontinued operations. The Company believes Adjusted EBITDA is a useful measure as 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, as well as 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 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		Years ended	
	September 30		September 30	
	2019	2018	2019	2018
Net income (loss)	\$ (704,848)	\$ 770,086	\$ (2,835,254)	\$ (46,266)
Finance income	(42,444)	(41,484)	(192,752)	(121,878)
Foreign exchange (gain) loss	(17,442)	5,270	(14,982)	(250,023)
Depreciation and amortization	398,257	425,472	1,566,122	1,611,891
Share-based compensation	96,060	146,497	570,772	681,739
Restructuring costs	(28,125)	-	787,575	-
Net loss from discontinued operations	-	-	-	123,322
Adjusted EBITDA	\$ (298,542)	\$ 1,305,841	\$ (118,519)	\$ 1,998,785

Nanotech Security Corp.

Consolidated Statements of Operations and Comprehensive Loss
Years ended September 30, 2019 and 2018

(In Canadian dollars)

	Three months ended September 30		Years ended September 30	
	2019	2018	2019	2018
Revenue ⁽¹⁾	\$ 1,449,687	\$ 3,000,839	\$ 6,402,702	\$ 8,247,414
Cost of sales ⁽¹⁾	337,634	667,835	1,511,865	1,510,101
	1,112,053	2,333,004	4,890,837	6,737,313
Expenses				
Research and development	322,296	212,513	1,477,668	1,407,430
General and administration	568,531	597,666	2,307,021	2,532,156
Sales and marketing	624,139	502,264	2,161,056	2,018,055
Depreciation and amortization	354,117	370,990	1,481,388	1,485,024
Restructuring costs	(28,125)	-	787,575	-
	1,840,958	1,683,433	8,214,708	7,442,665
Income (loss) from continuing operations before other expenses	(728,905)	649,571	(3,323,871)	(705,352)
Other (income) expenses				
Foreign exchange (gain) loss	(17,442)	5,270	(14,982)	(250,023)
Finance income	(42,444)	(41,484)	(192,752)	(121,878)
Tenant income ⁽¹⁾	(29,811)	(56,875)	(214,519)	(237,823)
Steam income ⁽¹⁾	65,640	(27,426)	(66,364)	(172,684)
	(24,057)	(120,515)	(488,617)	(782,408)
Net income (loss) from continuing operations	(704,848)	770,086	(2,835,254)	77,056
Net loss from discontinued operations	-	-	-	(123,322)
Net income (loss)	(704,848)	770,086	(2,835,254)	(46,266)
Other comprehensive income (loss):				
Items that may be subsequently reclassified to earnings (loss):				
Unrealized foreign exchange gain (loss) on translation of foreign operation	-	123	-	(98,908)
Total comprehensive income (loss)	\$ (704,848)	\$ 770,209	\$ (2,835,254)	\$ (145,174)
Basic and diluted earnings (loss) per share:				
Continuing operations	\$ (0.01)	\$ 0.01	\$ (0.04)	\$ 0.00
Discontinued operations	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Net income (loss)	\$ (0.01)	\$ 0.01	\$ (0.04)	\$ 0.00
Weighted average number of common shares				
Basic and diluted	69,035,007	68,514,245	68,916,001	68,425,673

⁽¹⁾ Revenue, cost of sales and other income have been adjusted to reflect the reclassification of tenant and steam income from revenue to other income under the full retrospective application of IFRS 15, which was adopted October 1, 2018. Quarterly revenue adjusted for these reclassifications can be found in the "Quarterly Results" section of management's discussion and analysis for the year ended September 30, 2019. For further information, see note 4(b) of the consolidated financial statements for the year ended September 30, 2019.

Nanotech Security Corp.

Consolidated Statements of Financial Position
As at September 30, 2019 and 2018

(In Canadian dollars)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,752,002	\$ 2,014,764
Short-term investments	7,537,262	7,598,857
Accounts receivable	503,660	1,962,969
Inventory	237,264	173,636
Prepaid expenses and other assets	419,753	125,514
	<u>11,449,941</u>	<u>11,875,740</u>
Property, plant and equipment	15,684,845	16,964,857
Goodwill	1,388,458	1,388,458
	<u>\$ 28,523,244</u>	<u>\$ 30,229,055</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,232,159	\$ 1,265,282
Deposit	543,368	-
Liabilities directly associated with assets held for sale	-	16,204
	<u>1,775,527</u>	<u>1,281,486</u>
Non-current liabilities:		
Tenant inducement	16,083	43,653
	<u>1,791,610</u>	<u>1,325,139</u>
Shareholders' equity		
Share capital	62,355,479	61,892,395
Contributed surplus	3,130,852	2,930,964
Deficit	(38,754,697)	(35,919,443)
	<u>26,731,634</u>	<u>28,903,916</u>
	<u>\$ 28,523,244</u>	<u>\$ 30,229,055</u>

Nanotech Security Corp.

Consolidated Statements of Cash Flows
Years ended September 30, 2019 and 2018

(in Canadian Dollars)

	Three months ended September 30		Years ended September 30	
	2019	2018	2019	2018
Cash flows provided by (used in):				
Operating activities:				
Net income (loss) from continuing operations	\$ (704,848)	\$ 770,086	\$ (2,835,254)	\$ 77,056
Items not involving cash:				
Depreciation and amortization	398,257	425,472	1,566,122	1,611,891
Share-based compensation	96,060	146,497	662,972	681,739
Unrealized foreign exchange gain	14,246	-	(2,448)	-
Interest income	(44,732)	(43,508)	(201,332)	(132,774)
Other	(9,364)	28,688	(27,223)	6,312
Non-cash working capital changes	1,049,061	(931,713)	1,578,505	(889,380)
Interest received	15,276	7,928	200,927	98,892
	813,956	403,450	942,269	1,453,736
Net cash provided by (used in) discontinued operations	(10,793)	(17,924)	(16,204)	76,694
Cash provided by operating activities	803,163	385,526	926,065	1,530,430
Investing activities:				
Purchase of property and equipment	(155,965)	(222,920)	(249,468)	(2,701,820)
Disposal of short-term investments	-	-	203,314	-
Acquisition of short-term investments	(5,339)	(7,598,857)	(141,660)	(7,598,857)
Cash used in investing activities	(161,304)	(7,821,777)	(187,814)	(10,300,677)
Effect of foreign exchange on cash and cash equivalents	(1,480)	-	(1,013)	(98,908)
Increase (decrease) in cash and cash equivalents	640,379	(7,436,251)	737,238	(8,869,155)
Cash and cash equivalents, beginning of year	2,111,623	9,451,015	2,014,764	10,883,919
Cash and cash equivalents, end of year	\$ 2,752,002	\$ 2,014,764	\$ 2,752,002	\$ 2,014,764

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 in development until profitability is eventually realized. The principal risks related to these forward-looking statements are the loss of a key customer, 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 the notes to the audited consolidated financial statements for the year ended September 30, 2019, 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

With billions of security features in circulation, Nanotech's products include secure and memorable security labels, stripes, patches, and colour-shifting films for currency authentication and brand protection.

KolourOptik® is a patented technology that is exclusive to the government and banknote market and combines sub-wavelength nanostructures and microstructures to create modern overt security features with a unique and customizable visual effect. KolourOptik pure plasmonic colour pixels produce full colour, 3D depth, and movement used in security stripes and threads that are nearly impossible to replicate. At less than 5 microns thick, KolourOptik products seamlessly integrate into banknotes and other secure government documents.

LiveOptik™ is a patented technology that utilizes innovative nano-optics one tenth the size of traditional holographic structures to create next generation overt security features customized to our customers' unique requirements. LiveOptik delivers multi-colour, 3D depth, movement, and image switches for secure brand protection stripes, threads and labels that are nearly impossible to replicate.

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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